UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20–F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report …….

Commission file number 001-33271

CELLCOM ISRAEL LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

10 Hagavish Street, Netanya 42140, Israel

(Address of principal executive offices)

Liat Menahemi Stadler, 972-52-9989595 (phone), 972-98607986 (fax), LIATME@cellcom.co.il, 10 Hagavish Street, Netanya 42140, Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 0.01 per share	New York Stock Exchange ("NYSE")

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2008, the Registrant had outstanding 98,349,312 Ordinary Shares, par value NIS 0.01 per share.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [X] Yes [] No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. [ ] Yes [X] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [ ]

International Financial Reporting Standards as issued by the International Accounting Standards Board [X]

Other []

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant elected to follow.

Item 17 []

Item 18 [ ]

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

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INTRODUCTION

In this annual report, "Cellcom," the "Company," "we," "us" and "our" refer to Cellcom Israel Ltd. and its subsidiaries. The terms "NIS" refers to new Israeli shekel, and "dollar," "USD" or "$" refers to U.S. dollars.

Presentation of Financial and Share Information

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements that were prepared in accordance with IFRS as issued by the IASB and IFRS 1-"First Time Adoption of International Financial Reporting Standards". Until and including our financial statements for the year ended December 31, 2007, we prepared our consolidated financial statements in accordance with Israeli GAAP. The influence of the transition to IFRS (from financial statements prepared in accordance with Israeli GAAP) on the Company's financial statements for the year ended December 31, 2007, its results of operations and its cash flows for that year, is detailed in note 31 to our consolidated annual financial statements included elsewhere in this annual report. Following the Company's adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP.

Unless we indicate otherwise, U.S. dollar translations of the NIS amounts presented in this annual report are translated for the convenience of the reader using the rate of NIS 3.802 to $1.00, the representative rate of exchange as of December 31, 2008 as published by the Bank of Israel.

Trademarks

We have proprietary rights to trademarks used in this annual report which are important to our business. We have omitted the "®" and "™" designations for certain trademarks, but nonetheless reserve all rights to them. Each trademark, trade name or service mark of any other company appearing in this annual report belongs to its respective holder.

Industry and Market Data

This annual report contains information about our market share, market position and industry data. Unless otherwise indicated, this statistical and other market information is based on statistics prepared by the Ministry of Communications of Israel, the Ministry of Finance of Israel, the Central Bureau of Statistics of Israel, the Organization for Economic Cooperation and Development, or OECD, and Pyramid Research. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. We have not independently verified the accuracy of market data and industry forecasts contained in this annual report that were taken or derived from these industry publications.

Special Note Regarding Forward-Looking Statements

We have made statements under the captions "Item 3.D - Risk Factors," "Item 4 – Information on the Company," "Item 5 - Operating and Financial Review and Prospects," and in other sections of this annual report that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will,"

"should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled "Item 3.D - Risk Factors." You should specifically consider the numerous risks outlined under "Item 3.D - Risk Factors."

Although we believe the expectations reflected in the forward-looking statements contained in this annual report are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We assume no duty to update any of these forward-looking statements after the date of this annual report to conform our prior statements to actual results or revised expectations, except as otherwise required by law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with the section of this annual report entitled "Item 5 - Operating and Financial Review and Prospects" and our consolidated financial statements and the notes thereto included elsewhere in this annual report.

The selected data presented below under the captions "Income Statement Data," and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 2008, are derived from the consolidated financial statements of Cellcom Israel Ltd. and subsidiaries, which financial statements have been audited by Somekh Chaikin, an independent registered public accounting firm and a member firm of KPMG International. The consolidated financial statements as of December 31, 2008, and 2007, and for each of the years in the two-year period ended December 31, 2008, and the report thereon, are included elsewhere in this annual report. The selected data should be read in conjunction with

the consolidated financial statements, the related notes, and the independent registered public accounting firm's report which contains emphasis paragraphs regarding the adoption of IFRS for the first time in 2008 and the convenience translation of the consolidated financial statements as of and for the year ended December 31, 2008 into US dollars solely for the convenience of the reader.

The figures for the years 2004 to 2006 have been restated to give retroactive effect to the initial implementation of the new Israeli Accounting Standard No. 27, "Property, plant and equipment", which came into effect on January 1, 2007. See note 2.U.2. to our consolidated financial statements for the year ended December 31, 2007 (included in our annual report on Form 20-F for the year ended December 31, 2007).

The information presented below under the caption "Other Data" contains information that is not derived from the financial statements.

The selected information also includes certain items for the years 2004 to 2006 in accordance with U.S. GAAP. Israeli GAAP differs in certain significant respects from U.S. GAAP. For a summary of certain significant differences, see note 28 to our consolidated financial statements for the year ended December 31, 2007.

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented at December 31, 2008, translated using the rate of NIS 3.802 to $1.00, the representative rate of exchange on December 31, 2008 as published by the Bank of Israel.

	Year Ended December 31,		
	2004	2005	2006
	(In NIS millions, except per share data)		
Income Statement Data:			
In accordance with Israeli GAAP			
Revenues	5,600	5,114	5,622
Cost of revenues	* 3,256	* 3,081	* 3,273
Selling and marketing expenses	661	623	656
General and administrative expenses	684	656	659
Other (income) expenses, net	(1)	* 13	* 6
Operating income	1,000	741	1,028
Financing income (expense), net	(45)	24	(155)
Income tax	* 296	* 234	* 314
Net income	659	531	559
Basic earnings per share	* 6.76	* 5.44	* 5.73
Diluted earnings per share	* 6.76	* 5.44	* 5.73
Weighted average ordinary shares used in calculation of basic earnings per share	97,500,000	97,500,000	97,500,000
Weighted average ordinary shares used in calculation of diluted earnings per share	97,500,000	97,500,000	97,500,000
U.S. GAAP Data(1)**:**			
Net income	620	491	494
Basic earnings per share	6.36	5.04	5.07
Diluted earnings per share	6.36	5.04	5.07
Other Data:			
EBITDA(2)	1,914	1,643	1,864
Capital expenditures	739	747	521
Dividends declared per share	—	34.87	4.41
Net cash provided (used) by operating activities	1,471	1,272	1,477
Net cash provided (used) in investing activities	(852)	(619)	(633)

	Year Ended December 31,		
	2004	2005	2006
	(In NIS millions, except per share data)		
Net cash provided (used) by financing activities	(1,068)	1,114	(2,560)
Subscribers (in thousands) (3)	2,450	2,603	2,884
Period churn rate(4)	19.9%	15.0%	16.8%
ARPU (in NIS)(5)	174	151	149

* Restated due to initial implementation of a new Israeli Accounting Standard No. 27 commencing January 1, 2007.

	Year Ended December 31,		
	2007	2008	2008
	(In NIS millions, except per share data)		(In US$ millions)
Income Statement Data:			
In accordance with IFRS			
Revenues	6,050	6,417	1,688
Cost of revenues	3,377	3,402	895
Selling and marketing expenses	685	701	185
General and administrative expenses	653	659	173
Other (income) expenses, net	3	(29)	(8)
Operating income	1,332	1,684	443
Financing income (expense), net	(147)	(310)	(82)
Income tax	310	389	102
Net income	875	985	259
Basic earnings per share	8.97	10.08	2.65
Diluted earnings per share	8.89	9.92	2.61
Weighted average ordinary shares used in calculation of basic earnings per share	97,500,000	97,721,339	97,721,339
Weighted average ordinary shares used in calculation of diluted earnings per share	98,441,260	99,279,924	99,279,924
Other Data:			
EBITDA(2)	2,110	2,406	633
Capital expenditures	573	556	146
Dividends declared per share	13.90	11.23	2.95
Net cash provided (used) by operating activities	1,820	1,763	464
Net cash provided (used) in investing activities	(560)	(546)	(144)
Net cash provided (used) by financing activities	(405)	(1,853)	(488)
Subscribers (in thousands) (3)	3,073	3,187	
Period churn rate(4)	16.3%	18.9%	
ARPU (in NIS)(5)	150	149	39

	As at December 31,		
	2004	2005	2006
	(In NIS millions)		
Balance Sheet Data:			
In accordance with Israeli GAAP			
Cash	5	1,772	56
Working capital	(138)	1,909	237
Total assets	* 5,607	* 7,361	* 5,323
Shareholders' equity	* 3,361	* 3,897	* 597
U.S. GAAP Data(2)**:**			
Total assets	5,610	11,100	8,998
Shareholders' equity	3,312	4,490	4,134

* Restated due to initial implementation of a new Israeli Accounting Standard No. 27 commencing January 1, 2007.

As at December 31,

	2007	2008	2008
	(In NIS millions)		(In US$ millions)
Balance Sheet Data:			
In accordance with IFRS			
Cash ..	911	275	72
Working capital	734	481	126
Total assets	6,232	5,420	1,426
Shareholders' equity	837	342	90

(1) Following the Company's adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP. Therefore, certain items in accordance with U.S. GAAP are presented only for the years 2004 to 2006. Under U.S. GAAP, DIC's acquisition of our shares in 2005 is treated as a purchase that requires a revaluation of our assets and liabilities, leading to increased amortization expense of intangible assets, offset by decreased depreciation expense of tangible assets under U.S. GAAP. In addition, we were required to push down certain DIC debt and the interest expense relating to such debt incurred to finance the acquisition until it was repaid in early 2006, leading to increased financial expense under U.S. GAAP. As a result of this accounting treatment, U.S. GAAP data presented for the year ended and as at December 31, 2005 and for the year ended and as at December 31, 2006 are not comparable with the data presented for the previous period.

(2) EBITDA is a non-GAAP measure and is defined as income before financial income (expenses), net; other income (expenses), net; income tax; depreciation and amortization. We present EBITDA as a supplemental performance measure because we believe that it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structure (most particularly affecting our interest expense given our significant debt), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) the age of, and depreciation expenses associated with fixed assets. EBITDA should not be considered in isolation or as a substitute for operating income or other statement of operations or cash flow data prepared in accordance with GAAP as a measure of our profitability or liquidity. EBITDA does not take into account our debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, EBITDA, as presented in this annual report, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,		
	2004	2005	2006
	(In NIS millions)		
In accordance with Israeli GAAP			
Net income	659	531	559
Financing expense (income), net	45	(24)	155
Other expenses (income), net	(1)	13	6
Income taxes	296	234	314
Depreciation and amortization	915	889	830
EBITDA	1,914	1,643	1,864

	Year Ended December 31		
	2007	2008	2008
	(In NIS millions)		(In US$ millions)
In accordance with IFRS			
Net income	875	985	259
Financing expense (income), net	147	310	82
Other expenses (income), net	3	(29)	(8)
Income taxes	310	389	102
Depreciation and amortization	775	751	198
EBITDA	2,110	2,406	633

(3) Subscriber data refer to active subscribers. Until June 30, 2006, we had a three-month method of calculating our subscriber base, which means that we deducted subscribers from our subscriber base after three months of no revenue generation or activity on our network by or in relation to both our post-paid and pre-paid subscribers. Commencing July 1, 2006, we adopted a six-month method of calculating our subscriber base, since many subscribers that were inactive for three months become active again before the end of six months. We have not restated our prior subscriber data presented in this table to reflect this change. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel. This change in methodology resulted in an increase of our number of reported subscribers by approximately 80,000 compared to the prior methodology and affected our other key performance indicators accordingly.

We also revised our subscriber calculation methodology in 2005 but we have not restated prior subscriber data to conform to the new presentation. We estimate that the change in methodology in 2005 led to an increase in our reported subscriber numbers of approximately 84,000.

(4) Churn rate is defined as the total number of voluntary and involuntary permanent deactivations in a given period expressed as a percentage of the number of subscribers at the beginning of the period. Involuntary permanent deactivations relate to subscribers who have failed to pay their arrears for the period of six consecutive months. Voluntary permanent deactivations relate to subscribers who terminated their use of our services.

(5) Average monthly revenue per subscriber (ARPU) is calculated by dividing revenues from cellular services for the period by the average number of subscribers during the period and by dividing the result by the number of months in the period. Revenues from inbound roaming services are included even though the number of subscribers in the equation does not include the users of those roaming services. Inbound roaming services are included because ARPU is meant to capture all service revenues generated by a cellular network, including roaming services. Revenues from sales of extended warranties are included because they represent recurring revenues generated by cellular subscribers, but revenues from sales of handsets, repair services and transmission and landline services are not. We and industry analysts, treat ARPU as a key performance indicator of a cellular operator, because it is the closest meaningful measure of the contribution to service revenues made by an average subscriber.

We have set out below the calculation of ARPU for each of the periods presented:

	Year Ended December 31,					
	2004	2005	2006	2007	2008	2008
	(In NIS millions, except number of subscribers and months)					(In US$ millions)
Revenues	5,600	5,114	5,622	6,050	6,417	1,688
less revenues from equipment sales	646	565	636	635	745	196
less other revenues*	21	38	61	93	135	35
Revenues used in ARPU calculation (in NIS millions)	4,933	4,511	4,925	5,322	5,537	1,456
Average number of subscribers	2,368,919	2,489,453	2,757,133	2,955,855	3,105,022	3,105,022
Months during period	12	12	12	12	12	12
ARPU (in NIS, per month)**	174	151	149	150	149	39

* Other revenues include revenues from repair services, transmission services and landline services.

** ARPU for 2006 was restated to reflect the full impact of the change in the methodology of calculating our subscriber base implemented in July 2006, to allow comparison with 2007. If the change in methodology of calculating our subscriber base had not changed in July 2006, ARPU for the year ended December 31, 2006 and for the year ended December 31, 2007 would have been NIS 153 and for the year ended December 31, 2008 would have been NIS 152.

Exchange Rate Information

The following table shows, for each of the months indicated, the high and low exchange rates between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar and based upon the daily representative rate of exchange as published by the Bank of Israel:

Month	High (NIS)	Low (NIS)
September 2008	3.635	3.396
October 2008	3.879	3.465
November 2008	4.022	3.752
December 2008	3.990	3.677
January 2009	4.065	3.783
February 2009	4.191	4.012

On February 27, 2009 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 4.162 to $1.00.

The following table shows, for periods indicated, the average exchange rate between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar, calculated based on the average of the representative rate of exchange on the last day of each month during the relevant period as published by the Bank of Israel:

Year	Average (NIS)
2004	4.483
2005	4.503
2006	4.442

Year	Average (NIS)
2007	4.085
2008	3.568

The effect of exchange rate fluctuations on our business and operations is discussed in "Item 5 - Operating and Financial Review and Prospects—Quantitative and Qualitative Disclosures about Market Risk."

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

We believe that the occurrence of any one or some combination of the following factors could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to our Business

We operate in a heavily regulated industry, which can harm our results of operations.

A substantial part of our operations is subject to the Israeli Communications Law, 1982, the Israeli Wireless Telegraph Ordinance (New Version), 1972, the regulations promulgated thereunder and the license for the provision of cellular services that we received from the Ministry of Communications in accordance with the Communications Law. The interpretation and implementation of the Communications Law, Wireless Telegraph Ordinance and regulations and the provisions of our general license, as well as our other licenses, are not certain and disagreements have arisen and may arise in the future between the Ministry of Communications and us. The Communications Law and regulations thereunder grant the Ministry of Communications extensive regulatory and supervisory authority with regard to our activities, as well as the authority to impose substantial sanctions in the event of a breach of our licenses or the applicable laws and regulations. In the event that we materially violate the terms of our licenses, the Ministry of Communications has the authority to revoke them.

Our general license is valid until February 2022. It may be extended for additional six-year periods upon our request to the Ministry of Communications and confirmation from the Ministry of Communications that we have complied with the provisions of our license and the applicable law, have continuously invested in the improvement of our service and network and have demonstrated the ability to do so in the future. Our other licenses are also limited in time. However, our licenses may not be extended when necessary, or, if extended, the extensions may be granted on terms that are not favorable to us. In addition, the Ministry of Communications has modified and may modify our licenses without our consent and in a manner that could limit our freedom to conduct our business.

Further, our business and results of operations could be materially and adversely affected by new legislation and decisions by our regulators that:

- reduce tariffs, including interconnect and roaming tariffs or otherwise intervene in the pricing policies for our products and services;
- increase the number of competitors in the cellular market, including by providing mobile virtual network operators, or MVNO, licenses, mobile WiMAX licenses and/or licenses for the use of our network by competing technologies, such as Voice Over Broadband over cellular, or VOBoC; limit our ability to compete, including by limiting our ability to develop our network, by preferring new and/or small competitors in the allocation of new frequencies, including those designated to the 4th generation of cellular services;
- impose new safety or health-related requirements;
- impose additional restrictions and/or requirements on the construction and operation of cell sites;
- impose restrictions on the provision of content services;
- impose restrictions on the provision of services or products we currently provide and/or regulate or otherwise intervene with the terms under which we provide them to our subscribers;
- limit or otherwise intervene with the services or products that we may sell; or
- set higher service standards.

See "Item 4. Information on the Company – B – Business Overview – Government Regulations — Our Principal License".

If we fail to compensate for lost revenues resulting from past or future legislative or regulatory changes with alternative sources of income, our results of operations may be materially adversely affected.

We may not be able to obtain permits to construct and operate cell sites.

We depend on our network of cell sites to maintain and enhance network coverage for our subscribers. In addition, where necessary, we provide certain subscribers with bi-directional amplifiers, also known as "repeaters," to remedy weak signal reception in indoor locations. Some of these repeaters are located outdoors on rooftops. We also deploy and operate microwave sites as part of our transmission network. The construction and operation of these various facilities are highly regulated and require us to obtain various consents and permits. See "Item 4.B – Business Overview - Government Regulations - Permits for Cell Site Construction" for additional details.

We have experienced difficulties in obtaining some of these consents and permits, particularly in obtaining building permits for cell sites from local planning and building authorities. As of December 31, 2008, we operated a small portion of our cell sites without building permits or applicable exemptions. Although we are in the process of seeking to

obtain building permits or to modify our cell sites in order to satisfy applicable exemptions, we may not be able to obtain all the necessary permits or make the necessary modifications. Approximately 29% of our cell sites operate without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. Our reliance on the exemption for radio access devices has been challenged by local planning and building authorities in the courts, mostly unsuccessfully. In May 2008, the Israeli Attorney General opined that the exemption, as enacted, does apply to cellular radio access devices but recommended that an inter-ministry committee be established to examine the appropriateness of future application of the exemption to cellular access devices given the changed circumstances since the enactment of the exemption. The Attorney General further opined that the examination should be completed by the end of March 2009 and that failure to conclude the examination within a reasonable period may affect the legal assessment of the exemption as being reasonable. An inter-ministry committee was established but we understand that it has not yet provided its conclusions. However, notwithstanding the Attorney General's opinion, in May 2008 the District Court of Tel-Aviv-Jaffa, in its capacity as court of appeals, ruled that our and other cellular operators' devices do not meet the exemption's requirements and therefore the exemption may not be relied upon by us and by other cellular operators. We and other cellular operators appealed against this ruling to the Supreme Court. The State notified the Supreme Court that it concurs with our and another cellular operator's appeals against the District Court ruling. The State requested that a third operator's appeal be returned to the District Court for further deliberations on specific questions relating to the validity of the exemption in that case. Furthermore, in July 2008, a petition seeking to annul the Attorney General's opinion and apply the District Court ruling was filed with the Supreme Court by the Union of Local Authorities in Israel and certain local planning and building authorities. Both our appeal and the local authorities' petition are awaiting determination by the Supreme Court. Additionally, in November 2008, the District Court of Central Region, in its capacity as court of appeals, ruled that the exemption does not apply to radio access devices, if the rooftop on which those devices are located is at the same level as a residence or other building that is regularly frequented by people. Other appeals relating to the exemption are still under consideration in the District Court and other similar challenges, as well as other claims asserting that those cell sites and other facilities do not meet other legal requirements continue. Further, in July 2008, an amendment to the Israeli Communication Law proposing to annul the exemption passed the preliminary phase of enactment in the Israeli parliament. Annulment of the exemption could adversely affect our existing network and network build-out, particularly given the objection of some local planning and building authorities to grant due permits where required.

See "Item 4. Information on the Company – B. Business Overview - Government Regulations—Permits for Cell Site Construction".

In addition, we operate other cell sites in a manner that is not fully compatible with the building permits issued for these cell sites which may, in some cases, constitute grounds for termination of their lease agreements or claims for breach of such agreements. Our rooftop microwave sites and repeaters operate in reliance upon an exemption from the requirement to obtain a building permit. Substantially all of our outdoor microwave sites are rooftops. It is unclear whether other types of repeaters require a building permit. Our reliance on an exemption from the requirement to obtain building permits for repeaters has not, to date, been considered by the courts.

Operation of a cell site or other facility without a building permit or not in accordance with the permit or other legal requirements may result in the issuance of a demolition order for the cell site or other facility or the bringing of criminal charges against us and our officers and directors. Certain of our cell sites have been subject to demolition orders. In addition, criminal charges have been brought against us and our officers and directors in connection with cell sites that were alleged to have been constructed without the required permits. As of December 31, 2008, 17 criminal and administrative proceedings are outstanding; demolition order has been granted with respect to one cell site while the remaining 16 proceedings are pending further litigation.

Pursuant to the Israeli Non-Ionizing Radiation Law, 2006, which is effective, for the most part, as of January 1, 2007, the granting or renewal of an operating permit by the Commissioner of Environmental Radiation at the Ministry of Environmental Protection of Israel for a cell site or other facility is subject to the receipt of a building permit or the facility being exempt from the requirement to obtain a building permit. Should we fail to obtain building permits for our cell sites or other facilities, including in the event that our reliance upon an exemption from the requirement to obtain building permits for these cell sites and other facilities is found invalid, the Commissioner of Environmental Radiation at the Ministry of Environmental Protection will not grant or renew our operating permits for those cell sites and other facilities. Since October 2007, the Commissioner of Environmental Protection took the position that he will not grant and/or renew operating permits to radio access devices, where the local planning and building committee's engineer objected to our reliance upon the said exemption for radio access devices. For reasons not related to radiation hazards, we have not received environmental permits for a small portion of our cell sites, primarily due to building and planning issues, such as objections by local planning and building committee's engineers to our reliance on the exemption from obtaining building permits for radio access devices. Operating a cell site or a facility without an operating permit could subject us and our officers and directors to criminal, administrative and civil liability.

Should any of our officers or directors be found guilty of an offence, although this has not occurred to date, they may face monetary penalties and a term of imprisonment. Our sites may be the subject of demolition orders, we may be required to relocate cell sites to less favorable locations or stop operation of cell sites which could negatively affect the extent, quality and capacity of our network coverage and we or our officers and directors may face criminal charges.

In July 2008, a petition was filed with the Supreme Court by certain environmental organizations against the Minister of Environmental Protection, the Minister of Communications and the cellular companies, including us, seeking remedies relating to the delayed enactment of the Non-Ionizing Radiation regulations, the last draft of which included additional restrictions in relation to the operation of cell sites and other facilities (including maximum levels of exposure to non ionizing radiation). In December 2008, the Minister of Environmental Protection signed the Non-Ionizing Radiation Regulations which do not include the section setting the aforesaid restrictions. This petition awaits consideration by the Supreme Court. If restrictions similar to those included in the draft are subsequently adopted, they will, among other things, limit our ability to construct new sites and renew operating permits for a number of our existing sites, especially in residential areas.

The Israeli National Zoning Plan 36, or the Plan, which regulates cell site construction and operation is in the process of being changed. Current proposed changes impose additional restrictions and/or requirements on the construction and operation of cell sites and could, if

adopted, harm our ability to construct new cell sites, make the process of obtaining building permits for the construction and operation of cell sites more cumbersome and costly, and may delay the future deployment of our network.

Several local planning and building authorities are claiming that Israeli cellular operators may not receive building permits, in reliance on the current National Zoning Plan 36, for cell sites operating in frequencies not specifically detailed in the frequencies charts attached to the Plan. In a number of cases, these authorities have refused to provide a building permit for such new cell sites, arguing that the Plan does not apply to such cell sites and that building permits for such cell sites should be sought through other processes (which are longer and cumbersome), such as an application for extraordinary usage or under existing local specific zoning plans. Since June 2002, following the approval of the Plan, building permits for our cell sites (where required) have been issued in reliance on the Plan. The current proposed draft amendment to the Plan covers all new cell sites requiring a building permit, independently of the frequencies in which they operate. Most of our cell sites and many cell sites operated by other operators operate in frequencies not specifically detailed in the Plan.

If we are unable to obtain or renew building or other consents and permits for our existing sites or other facilities, we will be required to demolish or relocate these cell sites and facilities. Our inability to relocate cell sites or other facilities in a timely manner and/or construct and operate new cell sites or other facilities (if we are unable to obtain the necessary consents and permits and/or rely on the exemption from the requirement to obtain a building permit), could adversely affect our existing network, resulting in the loss of subscribers, prevent us from meeting the network coverage and quality requirements contained in our license (which may lead to its revocation) and adversely impact our network build-out, all of which may have a material adverse effect on our results of operations and financial condition.

We may be required to indemnify certain local planning and building committees in respect of claims against them.

Under the Israeli Planning and Building Law, 1965, by approving a building plan, local planning and building committees may be held liable to compensate for depreciation of properties included in or neighboring the approved plan.

In January 2006, the law was amended to require an applicant, as a precondition to obtaining a cell site construction permit from a planning and building committee, to provide a letter to the committee indemnifying it for possible depreciation claims. As of December 31, 2008, we have provided approximately 230 indemnification letters to local planning and building committees. Calls upon our indemnification letters may have a material adverse effect on our financial condition and results of operations. We may also decide to demolish or relocate existing cell sites to less favorable alternatives and to construct new cell sites in alternative, less suitable locations or not at all, due to the obligation to provide indemnification. As a result, our existing service may be impaired or the expansion of our network coverage could be limited.

In addition, local planning and building committees have sought to join cellular operators, including us, as defendants in depreciation claims made against them even though indemnification letters were not provided. We were joined as defendants in a small number of cases. It is possible that the joining of cellular operators to similar claims will continue

despite the absence of an indemnification letter. This practice increases the risk that we may be exposed to material liability as a result of depreciation claims.

In February 2007, the Israeli Minister of Interior Affairs extended the limitation period within which depreciation claims may be brought under the Planning and Building Law from three years from approval of a building plan, to the later of one year from receiving a building permit for a cell site under National Zoning Plan 36 and six months from the construction of a cell site. The Minister retains the general authority to extend such period further. This extension of the limitation period increases our potential exposure to depreciation claims. In addition, should the Planning and Building Law be construed or amended to allow a longer period of limitation for depreciation claims than the current limitation period set in that law, our potential exposure to depreciation claims would increase.

Alleged health risks relating to non-ionizing radiation generated from cell sites and cellular telecommunications devices may harm our prospects.

Handsets, accessories and various types of cell sites are known to be sources of non-ionizing radiation emissions and are the subject of a public debate in Israel. While, to the best of our knowledge, the handsets that we market comply with the applicable legislation that relate to acceptable "specific absorption rate," or SAR, levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual level of SAR of the handsets throughout the lifecycle of the handsets, including in the case of handset repair. See also "Item 4. Information on the Company – B. Business Overview - Government Regulations - Handsets". Concerns regarding cell sites have already caused us difficulties in obtaining or renewing leases for cell sites and even resulted in unlawful sabotage of a small number of cell sites. In addition, it was brought to our attention that the magistrate court of Jerusalem has recently ruled in a lawsuit involving one of our competitor's sites, that there is a reasonable chance that the cell site in that case may be hazardous to the plaintiffs' health and that the defendant did not prove otherwise. Recommendations by the Israeli Ministry of Health published in July 2008, to take precautionary measures when using cellular handsets, have increased the concerns of the Israeli public. The Ministry of Health indicated that although the findings of the international study on whether cellular phone usage increases the risk of developing certain tumors were not yet finalized, partial results of several of the studies were published, and while these studies did not demonstrate a connection between cellular phone exposure and tumor growth, a relationship between prolonged cellular phone usage and tumor development was observed in some of these studies. If health concerns over non-ionizing radiation increase further, adverse findings in studies of non-ionizing radiation are published or if non-ionizing radiation levels are found to be higher than the standards set for handsets and cell sites, consumers may be discouraged from using cellular handsets and regulators may impose additional restrictions on the construction and operation of cell sites or handset usage. As a result, we may experience increased difficulty in obtaining leases for new cell site locations or renewing leases for existing locations (although so far, in total we have experienced renewal problems with approximately 6% of our cell site leases each year); we may be exposed to property depreciation claims; we may lose revenues due to decreasing usage of our services; we may be subject to increased regulatory costs; and we may be subject to health-related claims for substantial sums. See "Item 8. Financial Information - A. Consolidated Statements and Other Financial Information – Legal Proceedings—Purported class actions" for additional details on a purported class action filed against us in that respect. We have not obtained insurance for these potential claims. An adverse outcome to, or settlement of, any health - related litigation

against us or any other provider of cellular services could have a material adverse effect on our results of operations, financial condition or prospects.

We face intense competition in all aspects of our business.

The Israeli cellular telephone market is highly competitive. We compete for subscribers with three other cellular operators. While we enjoy the largest market share, estimated to be 34.7% as of December 31, 2008, two of our competitors, Partner and Pelephone, enjoy estimated market shares of 31.6% and 29.7% respectively, with MIRS Motorola Communications Ltd., or MIRS, estimated to have a market share of 4.0%. The current competitive pressure in the Israeli market results primarily from the highly penetrated state of the market. See also "Item 4. Information on the Company - B. Business Overview - The Telecommunications Industry in Israel". This means that market growth is limited and cellular operators compete intensely to retain their own subscribers and attract those of their competitors. Further, competition changes as cellular operators enter into additional communication markets, such as broadband and internet services and Internet Protocol Television (IPTV). In addition, the implementation of number portability in December 2007, has eliminated one of the deterrents to switching between cellular operators and churn rates have slightly increased in line with other countries' experience following number portability implementation. Any of the following developments in our market and/or the implementation by the Ministry of Communications of the recommendations of a public committee appointed by it to review issues in the telecommunications market adopted by the Ministry of Communications (certain such recommendations were also adopted in the Israeli Government resolutions) in August 2008 (see "Item 4. Information on the Company – B. Business Overview – Competition."), are expected to increase competition further and may result in an increased churn rate, increased subscriber acquisition and retention costs and ultimately reduced profitability for us:

- Pelephone's offering of certain services jointly with its parent company, Bezeq, the incumbent landline operator; although Bezeq and Pelephone may not offer integrated or combined packages of cellular and landline telephone and other telecommunication services currently, the Ministry of Communications is conducting a hearing in relation to reducing some of the limitations. The Ministry of Communications has stated that once Bezeq's share of the Israeli landline telephone market falls below 85%, it would be permitted to offer certain services jointly with its subsidiaries, provided that a similar bundle is made available by a competitor of Bezeq (such as a landline and cellular bundle) and subject to each of the services in Bezeq's bundle being available to be sold separately. In December 2008 the Ministry of Communications determined that Bezeq's market share as of September 2008 is 83.3% in the private sector and 88.9% in the business sector.

- the recent launch of a UMTS/HSPA network by Pelephone, as it would strengthen Pelephone's ability to compete in the provision of inbound and outbound roaming services as well as improve its competitive position in the market.

- the entry into the Israeli cellular market by additional operators and/or MVNOs, could increase competition and thus may have material adverse affect on our revenues. In January 2009 the Ministry of Communications published a hearing regarding an MVNO draft license and general principles

for MVNO regulations; See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Mobile Virtual Network Operator"for additional details;

- a proposed amendment to the Israeli Restrictive Trade Practices Law, 1988, including: (1) giving the Director General of the Israeli Antitrust Authority the power to determine that certain entities in a specific market act as oligopoly, based on the existence of conditions for effective competition (or lack thereof) in the relevant market rather than on the actual lack (or low level) of competition; (2) giving the Director General of the Antitrust Authority the power to distinguish between an oligopoly and a monopoly allowing the Director General to give instructions to all or some of the participants of an oligopolic market, in order, among others, to maintain or increase the competition level among the participants, including the authority to issue orders to remove or to ease entry or transfer barriers, to cease a participant's activity, or otherwise regulate the activities of such oligopoly. If the Director General decides that the Israeli cellular market is oligopolistic, the Director General may take measures which could limit our freedom to manage our business, increase the competitive pressures that we face and adversely affect our results of operations;

- the entry into the cellular market of mobile WiMAX technology (by a new entrant); the Ministry of Communications published a WiMAX policy on March 1, 2009 and is expected to publish a WiMAX frequencies tender in 2009;and

- the entry into the communications market of competing technologies, which may be granted a license to use the cellular networks, such as VOB over cellular; The Ministry of Communications has granted two trial licenses for VOBoC, following which it is expected to publish the details of a hearing in regards to VOBoC policy and licenses.

We could be subject to legal claims due to the inability of our information systems to fully support our calling plans.

In order to attract and retain the maximum number of subscribers in our highly competitive market, we design specific calling plans to suit the preferences of various subscriber groups. We require sophisticated information systems to record accurately subscriber usage pursuant to the particular terms of each subscriber's plan as well as accurate database management and operation of a very large number of calling plans. From time to time, we have detected some discrepancies between certain calling plans and the information processed by our internal information systems, such as applying an incorrect rebate or applying an incorrect tariff to a service resulting in a higher charge. We have invested substantial resources to refine and improve our information and control systems and ensure that our new calling plans are appropriately processed by our information systems; we have also taken steps to remedy the identified discrepancies and have established reserves where the discrepancies are quantifiable. Despite our substantial investments, we may experience discrepancies in the future due to the multiplicity of our plans and the scope of the processing tasks. Further, while we invest substantial efforts in monitoring our employees and third-party distributors and dealers that market our services, it is possible that some of our employees, distributors or dealers may offer terms and make (or fail to make) representations

to existing and prospective subscribers that do not fully conform to applicable law, our license or the terms of our calling plans. As a result of these discrepancies, we may be subject to subscribers' claims, including class action claims, and substantial sanctions for breach of our license or the applicable laws and regulations that may materially adversely affect our results of operations.

We are exposed to, and currently are engaged in, a variety of legal proceedings, including class action lawsuits.

We provide services to millions of subscribers on a daily basis. As a result of the scope and magnitude of our operations we are subject to the risk of a large number of lawsuits, including class action suits by consumers and consumer organizations, with respect to billing and other practices. These actions may be costly to defend and could result in significant judgments against us. The Israeli Class Actions Law, 2006 and the 2005 amendment to the Israeli Consumer Protection Law, 1981 include provisions that expand the causes of action for which a class of litigants may bring suit, including with regard to any damages allegedly incurred prior to the effective date of these laws, reducing the minimal requirements for certification of a class action lawsuit and reducing the qualifications required to be a lead plaintiff in a class action lawsuit. These laws have increased and may continue to increase the number of requests for certification of class actions against us, our legal exposure and our legal costs in defending against such suits, which as a result may materially and adversely affect our financial results. Currently, we are engaged in a number of purported class action suits as a defendant, some of which are for substantial amounts. For a summary of certain material legal proceedings against us, see "Item 8 – Financial Information - A. Consolidated Statements and Other Financial Information –Legal Proceedings".

We are subject to the risk of intellectual property rights claims against us, including in relation to music, music-related and/or other content services we purchase from third party content providers. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages or may be required to obtain licenses for the infringing product or service. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be forced to stop using or selling the products and services, which could adversely affect our ability to provide certain services and products.

We may face claims of being in violation of the law and our license requiring the implementation of number portability and the terms of our license governing the method of charging for SMS messages.

As a result of an amendment to the Communications Law in March 2005, cellular and landline telephone operators were required to implement number portability by September 1, 2006. Number portability permits subscribers to change to another network operator without having to change their telephone numbers. Despite efforts to introduce the requisite technology and coordinate the transition to number portability by September 1, 2006, no cellular or landline operator had implemented number portability by that date and a purported class action in that respect was filed against us and other cellular and landline operators. Number portability was implemented on December 2, 2007 and the lawsuit dismissed without prejudice in March 2008, at the plaintiffs' request. However, we can not guarantee that we will not be exposed to other legal claims, including class actions, regarding this

matter. See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Number Portability" for additional details.

In 2005, our license was amended to regulate charging for SMS messages sent outside our network, which, under one interpretation of the amendment, may lead to claims of our not being in compliance with our license. To date, we have fulfilled the license requirements, even under this potential interpretation, with respect to SMS messages sent to subscribers of one other cellular operator. However, due to technological difficulties which we and our competitors face and have not yet been resolved, we may face claims, if such interpretation of the amendment prevails, of not having implemented the amendment with respect to SMS messages sent to subscribers of two other operators. We had notified the Ministry of Communications of our technological inability to fully implement the amendment, if it is so interpreted. The Ministry of Communications had proposed an amendment to our license to resolve this problem, which we believe is unsatisfactory because it does not change the charging criteria but mainly proposes certain customer notification requirements. Until such time as the cellular operators develop the necessary interfaces or our license is amended, we may be exposed, if such an interpretation prevails, to substantial sanctions and legal claims.

We may be subject to increased regulation in respect of handset sales.

The Ministry of Communications is considering adopting changes to the licenses of the cellular operators that would prohibit cellular operators from creating any linkage between handset purchase and airtime credit granted to the purchasing subscriber. This prohibition is included in the recommendations of a public committee appointed by the Ministry of Communications, published in March 2008. If such proposed changes are adopted and implemented, this would impair our ability to offer our subscribers handsets with airtime rebates. This may lead to difficulties in selling advanced handsets that have the potential to generate high content-related revenues, which in turn may reduce our potential revenues or require higher subscriber acquisition costs and adversely affect our results of operations.

We rely on interconnecting telecommunications providers and could be adversely affected if these providers fail to provide these services without disruption and on a consistent basis.

Our ability to provide commercially viable cellular telephone services depends upon our ability to interconnect with the telecommunications networks of landline, cellular telephone and international operators in Israel in order to complete calls between our subscribers and parties on a landline or other cellular telephone network, as well as third parties abroad. All landline, cellular telephone and international operators in Israel are required to provide interconnection to, and not to discriminate against, any other licensed telecommunications operator in Israel. We have no control over the quality and timing of the investment and maintenance activities that are necessary for these entities to provide us with interconnection to their respective telecommunications networks. The implementation of number portability requires us to rely further on other providers, since our ability to implement number portability, provide our services and our basic ability to port numbers between operators are dependent on the manner of number portability implementation by interconnecting local operators. The failure of these or other telecommunications providers to provide reliable interconnections to us on a consistent basis could have an adverse effect on our business, financial condition or results of operations.

There are certain restrictions in our license relating to the ownership of our shares.

Our license restricts ownership of our ordinary shares and who can serve as our directors as follows:

- our founding shareholder, Discount Investment Corporation Ltd., or DIC (or its transferee or transferees, if approved in advance by the Ministry of Communications as "founding shareholders"), must own at least 26% of each of our means of control;
- Israeli citizens and residents among our founding shareholders (or their approved transferees) must own at least 20% of our outstanding share capital and each of our other means of control (DIC has agreed to comply with this requirement);
- a majority of our directors must be Israeli citizens and residents;
- at least 20% of our directors must be appointed by Israeli citizens and residents among our founding shareholders; and
- we are required to have a committee of our Board of Directors that deals with matters relating to state security, which must be comprised of at least four directors (including an external director) having the requisite security clearance by Israel's General Security Service.

If these requirements are not complied with, we could be found to be in breach of our license and our license could be changed, suspended or revoked.

In addition, our license provides that, without the approval of the Ministry of Communications, no person may acquire or dispose of shares representing 10% or more of our outstanding share capital. Further, our directors and officers and any holder of ordinary shares representing 5% or more of our outstanding share capital may not own 5% or more of Bezeq or any of our competitors or serve as a director or officer of such a company, subject to certain exceptions which require the prior approval of the Ministry of Communications.

To ensure that an unauthorized acquisition of our shares would not jeopardize our license, our articles of association provide that any shares acquired without approval required under our license will not be entitled to voting rights.

If our service is to be determined by the Israeli Government to be an "essential service", the Prime Minister and the Ministry of Communications could impose additional limitations including a heightened requirement of Israeli ownership of our ordinary shares.

Although our articles of association contain certain provisions that are aimed at reducing the risk that holdings or transfers of our ordinary shares will contravene our license, we cannot entirely control these and other matters required by our license, the violation of which could be a basis for suspending or revoking our license. See also "Item 4. Information on the Company – B. Business Overview – Government Regulations — Our Principal License".

We may be adversely affected by the significant technological and other changes in the cellular communications industry.

The cellular market is known for rapid and significant technological changes. Our current technologies, including our 3.5G technologies, may be overtaken rapidly, requiring us to invest in alternative technologies to remain competitive. Further, technologies such as wireless broadband access services such as WiMAX, Wi-Fi, VOB and other technologies that have the capacity to handle cellular calls or data transfer (such as VoBoC), may enter our market and compete with traditional cellular providers, thus further intensifying the competition we face and requiring us to reduce prices, thus adversely affecting our results of operations. The Ministry of Communications has granted trial licenses to certain entities to use cellular networks for the provision of VOB over cellular and is expected to publish a WiMAX frequencies tender in 2009, in which it is expected to allocate mobile WiMAX frequencies to a new operator, since the present cellular operators, including us, are not eligible to participate in that tender under the Ministry of Communications' policy.

If we cannot obtain or maintain favorable roaming arrangements, our services may be less attractive or less profitable.

We rely on agreements to provide roaming capability to our subscribers in many areas outside Israel. As of December 31, 2008, we had roaming arrangements with 520 cellular providers in 174 countries around the world. However, we cannot control the quality of the service that they provide and it may be inferior to the quality of service that we provide. Equally, our subscribers may not be able to use some of the advanced features that they enjoy when making calls on our network. Some of our competitors may be able to obtain lower roaming rates than we do because they may have larger call volumes or because of their affiliations with other international cellular operators. Competition is expected to intensify once Pelephone begins providing roaming services through its new UMTS system. If our competitors' providers can deliver a higher quality or a more cost effective roaming service, then subscribers may migrate to those competitors and our results of operation could be adversely affected. Further, we may not be able to compel providers to participate in our technology migration and enhancement strategies. As a result, our ability to implement technological innovations could be adversely affected if these overseas providers are unable or unwilling to cooperate with the further development of our network or if they cease to provide services comparable to those we offer on our network.

Following European Union regulation of roaming tariffs, which reduced tariffs for calls made by members of the European Union among themselves, several European Union member operators have raised roaming tariffs for calls to and from non-European Union member operators, resulting in higher roaming tariffs for our subscribers. In addition, in August 2008, the Israeli Government adopted a resolution to negotiate a reduction of inbound and outbound roaming tariffs with the European Union and/or members of the European Union or countries frequently visited by Israelis. In November 2008 the Ministry of Communications requested us to provide information in relation to our roaming services. If roaming tariffs are reduced as a result of the proposed negotiation or otherwise and/or if additional European Union member operators raise their tariffs and/or if we are not able to raise our tariffs or otherwise compensate for the higher roaming expenses this could adversely affect our profitability and results of operations.

Our substantial debt increases our exposure to market risks, may limit our ability to incur additional debt that may be necessary to fund our operations and could adversely affect our financial stability.

As of December 31, 2008, our total indebtedness was approximately NIS 3,730 million ($981 million). The indentures governing our debentures currently permit us to incur additional indebtedness. Our substantial debt could adversely affect our financial condition by, among other things:

- increasing our vulnerability to adverse economic, industry or business conditions, including increases in the Israeli Consumer Prices Index, or CPI;
- limiting our flexibility in planning for, or reacting to, changes in our industry and the economy in general;
- requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, thus reducing the funds available for operations and future business development; and
- limiting our ability to obtain additional financing to operate, develop and expand our business.

Our business results may be affected by continued recession

Most of our revenues are not guaranteed or prepaid and are usage dependant. Although we see no evidence of a decreased usage of our services (other than our roaming services, in which a decrease is noticed due to reduced tourism), due to the current global economic recession, if this recession continues, usage of our services decreases and we cannot otherwise compensate for lost revenues, it may have a material adverse effect on our results of operations, financial condition or prospects. The recession may also result in our customers not being able to pay the amount owed to us .Failure of one or more of our larger business customers to pay the amount owed to us, may materially increase our bad debts (which already increased following the implementation of number portability; for further details see Item 5. Operating and Financial Review and Prospects – A. Operating Results – Results of Operations Comparison of 2007 and 2008 - Selling and marketing expenses and general and administrative expenses) and have a material adverse effect on our results of operations and financial condition. Furthermore, the recession may adversely affect third parties we rely upon in the provision of our services, including interconnecting telecommunication providers, roaming partners and services and equipment providers. Recently, Nortel Networks Inc., a global supplier of communication equipment, filed a request for Chapter 11 bankruptcy protection in the US and its local affiliate - Nortel Networks Israel Ltd., which supplied us with certain equipment for our landline services, our CTI and TDMA network and is supplying us with maintenance services for same, entered a similar process in the Israeli courts. If this or other providers fail to provide reliable and consistent services and/or equipment to us on the requisite standards of quality and on a timely basis, our ability to provide services to our subscribers may be reduced in scope and/or in quality, until and inasmuch as an alternative provider can be found, and consequently our license may be at risk of revocation for failure to satisfy the required service standards. An alternative provider and/or solution, may involve additional expenses and/or investments on our part and/or may involve terms that are less favorable to us, including reduced revenues. In addition, if any damage is caused to us and/or we are found liable for damages caused to third parties by such service or equipment providers and such

providers are unable to indemnify us for such damages, we may have to bear the cost of such damages, which may be substantial, and such outcome may adversely affect our financial condition.

Our business results may be affected by currency fluctuations, by our currency hedging positions and by changes in the Israeli Consumer Price Index.

A portion of our cash payments are incurred in, or linked to, foreign currencies, mainly US Dollars. In particular, in 2006, 2007 and 2008, payments in U.S. dollars or linked to the U.S. dollar represented approximately 25%, 33% and 33%, respectively, of total cash outflow (including payments of principal and interest on our debentures). These payments included capital expenditures, some of our operating lease payments, payments to equipment suppliers including handset suppliers and, in 2007 and in 2008, payments of principal and interest on our credit facility (voluntarily prepaid in full in March 2008). As almost all of our cash receipts are in NIS, any devaluation of the NIS against those foreign currencies in which we make payments, particularly the U.S. dollar, will increase the NIS cost of our foreign currency denominated or linked expenses and capital expenditures.

We purchase derivative financial instruments in order to hedge the foreign currency risks, CPI risks and interest risks deriving from our operations and indebtedness. Derivatives are initially recognized at fair value. Changes in the fair value are accounted for as follows: Changes in the fair value of derivative hedging instruments designated as a cash flow hedge are recognized directly as a component of our shareholders' equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in our income statement as the hedged item affects earnings. The amount recognized in shareholders' equity is transferred to our income statement in the same period that the hedged item affects our earnings. Notwithstanding the above, hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized through our income statement upon occurrence. These differences in the derivative instruments' designation could result in fluctuations in our reported net income on a quarterly basis. Furthermore, since the principal amount of and interest that we pay on our debentures, are linked to the Israeli CPI, any increase in the Israeli CPI will increase our financial expenses and could adversely affect our results of operations.

We may not be able to fulfill our dividend policy in the future; implementation of our dividend policy will significantly reduce our future cash reserves.

In February 2006, we adopted a dividend policy targeting a payout ratio of at least 75% of our net income in each calendar year, subject to any applicable law, our license and contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. In 2007 and 2008, our Board of Directors has declared dividends constituting as much as 95% or more of our net income and may declare dividends in similar rates in the future. See "Item 8. Financial Information - A. Consolidated Statements and Other Financial Information - Dividend Policy". Our license requires that we and our 10% or more shareholders maintain at least $200 million of combined shareholders' equity. See "Item 5 - Operating and Financial Review and Prospects—Liquidity and Capital Resources—Debt service". Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to pay dividends at a ratio to net income that is less than that paid in the past.

Our dividend policy, to the extent implemented, will significantly reduce our future cash reserves and may adversely affect our ability to fund unexpected capital expenditures as well as our ability to make interest and principal repayments on our debentures. As a result, we may be required to borrow additional money or raise capital by issuing equity securities, which may not be possible on attractive terms or at all.

If we are unable to fulfill our dividend policy, or pay dividends at levels anticipated by investors in our shares, the market price of our shares may be negatively affected and the value of our investors' investment may be reduced.

We rely on a limited number of suppliers for key equipment and services.

We depend upon a small number of suppliers to provide us with key equipment and services. For example, Nokia Siemens Israel provides our network system based on GSM/GPRS/EDGE technology, our UMTS/HSPA core system and related products and services and our landline New Generation Network system, or NGN system; LM Ericsson Israel supplies our radio access network and related products and services based on UMTS/HSPA technology; Amdocs Israel provides us with services with respect to the operating of, and the implementation of developments to, our billing system; and Be'eri Printers provides our printing supplies and invoices as well as the distribution, packaging and delivery of invoices and other mail to the postal service distribution centers. In addition, we lease a portion of our transmission capacity from Bezeq, the incumbent landline operator. Bezeq has experienced labor disputes, including stoppages, during the privatization process and liberalization of the landline market, and additional disruptions, stoppages and slowdowns may be experienced in the future. If these suppliers fail to provide equipment or services to us on the requisite standards of quality and on a timely basis, we may be unable to provide services to our subscribers in an optimal manner until an alternative source can be found and our license may be at risk of revocation for failure to satisfy the required service standards.

We are a member of the IDB group of companies, one of Israel's largest business groups. This may limit our ability to expand our business, to acquire other businesses or to borrow money from Israeli banks.

We are an indirect subsidiary of IDB, one of Israel's largest business groups. Other indirect subsidiaries of IDB also operate in the Israeli communication market providing high speed Internet, international telephone services and wireline and landline communication services. As a result, conflicts of interest may arise between us and other IDB group companies. Due to the limited size of the Israeli market and due to the high level of regulation of the Israeli market, in particular in the communications market, our being a member of the IDB group of companies may limit our ability to expand our business in the future, to form joint ventures and strategic alliances and conduct other strategic transactions with other participants in the Israeli communications market.

In addition, pursuant to the "Guidelines for Sound Bank Administration" issued by the Israeli Supervisor of Banks, the amount that an Israeli bank may lend to one group of borrowers and to each of the six largest borrowers of such banking corporation is limited. Since we are a member of IDB's group of borrowers, these guidelines may limit the ability of Israeli banks to lend money to us, although this has not occurred to date.

We are controlled by a single shareholder who can significantly influence matters requiring shareholders' approval.

As of December 31, 2008, DIC held, directly and indirectly, approximately 46.9% of our outstanding share capital. Pursuant to shareholders agreements among DIC and certain of our minority shareholders, who in the aggregate own approximately 5.45% of our ordinary shares, DIC has been granted the voting rights in respect of those shares. In addition to DIC's shareholdings and such additional voting rights, it has the right to appoint the 20% of our directors that we are required by our license and articles of association to have appointed by Israeli citizens and residents among our founding shareholders. Accordingly, subject to legal limitations, DIC has control over all matters requiring shareholder approval, including the election and removal of our directors and the approval of significant corporate transactions. This concentration of ownership could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares.

Further, as a foreign private issuer, we are exempt from the application of the NYSE rules requiring the majority of the members of our Board of Directors to be independent and requiring our Board of Directors to establish independent nomination and compensation committees. Accordingly, our minority shareholders and debenture holders are denied the protection intended to be afforded by these corporate governance standards.

Risks Relating to Operating in Israel

We conduct our operations in Israel and therefore our results may be adversely affected by political, economic and military instability in Israel.

Our operations, our network and some of our suppliers are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Since September 2000, there has been a high level of violence between Israel and the Palestinians. Hamas, an Islamist movement responsible for many attacks, including missile strikes, against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip, by force, in June 2007. Hamas has launched hundreds of missiles from the Gaza Strip against Israeli population centers, disrupting day-to-day civilian life in southern Israel. This led to an armed conflict between Israel and the Hamas during December 2008 and January 2009. A substantial part of our network and information systems is located in the southern part of Israel, within range of missile strikes from the Gaza Strip. Any damage to our network and/or information systems would damage our ability to provide service, in whole or in part, in the southern part of Israel and/or otherwise damage our operation and could have an adverse effect on our business, financial condition or results of operations.

More generally, any armed conflicts, terrorist activities or political instability in the region would likely negatively affect business conditions and could harm our results of operations, including following termination of such conflicts, due to a decrease in the number of tourists visiting Israel.

In addition, in the event that the State of Israel relinquishes control over certain territories currently held by it to the Palestinian Authority, we will not be able to provide service from our cell sites located in Israeli populated areas and on connecting roads in these territories. This may result in the loss of subscribers and revenues and in a decrease in our market share.

Our freedom and ability to conduct our operations may be limited during periods of national emergency.

The Communications Law grants the Prime Minister of Israel the authority, for reasons of state security or public welfare, to order a telecommunications license holder to provide services to security forces, to perform telecommunication activities or to establish a telecommunications facility as may be required for the security forces to carry out their duties. Further, the Israeli Equipment Registration and IDF Mobilization Law, 1987, also permits the registration of engineering equipment and facilities and the taking thereof for the use of the Israel Defense Forces. This law further sets the payment for use and compensation for damages caused to the operator as a result of such taking. Our general license also permits the Israeli Government, during national emergencies or for reasons of national security, to take all necessary actions in order to ensure state security, including taking control of our network, and requires us to cooperate with such actions. If national emergency situations arise in the future and if we are to be subject during such time to any of the foregoing actions, this could adversely affect our ability to operate our business and provide services during such national emergencies and adversely affect our business operations.

Provisions of Israeli law and our license may delay, prevent or impede an acquisition of us, which could prevent a change of control.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. For example, a merger may not be completed unless at least 50 days have passed from the date that a merger proposal was filed by each merging company with the Israel Registrar of Companies and at least 30 days from the date that the shareholders of both merging companies approved the merger. In addition, a majority of each class of securities of the target company is required to approve a merger. Further, the provisions of our license require the prior approval of the Ministry of Communications for changes of control in our Company.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when the time expires, tax then becomes payable even if no actual disposition of the shares has occurred.

These provisions could delay, prevent or impede an acquisition of us, even if such an acquisition would be considered beneficial by some of our shareholders.

Risks Relating to Our Ordinary Shares

A substantial number of our ordinary shares could be sold into the public market, which could depress our share price. Our largest shareholder, DIC, holds approximately 46.9% of our outstanding ordinary shares, as of December 31, 2008. The market price of our ordinary shares could decline as a result of future sales into the market by DIC or other existing shareholders or the perception that these sales could occur. DIC sold 11,425,000 ordinary shares, or approximately 11.62% of our outstanding shares in a number of transactions outside the United States in September of 2007 and January, May and December of 2008. Sales may be made pursuant to a registration statement, filed with the SEC pursuant to the terms of a registration rights agreement or otherwise, or in reliance on an exemption from the registration requirements of the Securities Act, including the exemptions provided by Rule 144 or Regulation S. Any decline in our share price could also make it difficult for us to raise additional capital by selling shares.

In addition, as of December 31, 2008 we have 1,274,863 shares reserved for issuance upon the exercise of options; the options are subject to vesting schedules but vesting will be accelerated upon certain events including any sale by DIC that leads to DIC ceasing to control (as such term is defined in the Israeli Securities Law, 1968, namely the ability to direct our activities) us. See "Item 6. Directors, Senior Management and Employment – E. Share Ownership – 2006 Share Incentive Plan".

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

Cellcom Israel Ltd. was incorporated in 1994 in Israel. Our principal executive offices are located at 10 Hagavish Street, Netanya 41240, Israel and our telephone number is (972)-52-999-0052. Our authorized U.S. representative, Puglisi & Associates, is located at 850 Library Avenue, Suite 204 Newark, Delaware 19711 and our agent for service of process in the United States, CT Corporation System, is located at 111 Eighth Avenue, New York, NY 10011.

We hold one of the four general licenses to provide cellular telephone services in Israel. Our cellular license was granted by the Ministry of Communications in 1994 and is valid until 2022.

Our principal founding shareholders were DIC, a subsidiary of IDB, which prior to September 2005 indirectly held approximately 25% of our share capital, and BellSouth Corporation and the Safra brothers of Brazil, which together indirectly held approximately 69.5% of our share capital and voting rights in respect of an additional 5.5% of our share capital. DIC acquired the stakes of BellSouth and the Safra brothers in September 2005 and, following the sale of minority stakes to four groups of investors in 2006, the sale of shares as part of our initial public offering in February 2007 and subsequent sales of minority stakes in 2007 and 2008, DIC currently directly and indirectly holds approximately 46.9% of our share capital and the voting rights in respect of an additional approximately 5.45% of our share capital.

Following the acquisition by DIC in 2005, DIC put in place a new management team, including Ami Erel, the Chairman of our Board of Directors, who had previously been President and CEO of Bezeq, Amos Shapira, our Chief Executive Officer, who had been CEO of Kimberly-Clark's Israeli subsidiary and El Al Airlines, Tal Raz, our Chief Financial Officer, one of the founders and formerly a director of Partner, one of our principal competitors and Adi Cohen, our VP Marketing, who had been marketing manager of Shufersal, Israel's largest retail chain, and previously, Partner's marketing manager. While maintaining its focus on increasing efficiency, our management team has successfully implemented a series of initiatives to drive our growth, including the continued enhancement of our distinctive brand, a greater focus on customer service and new sales campaigns. These initiatives resulted in continuous growth in all operational and financial parameters and strengthening our position as the largest cellular operator in Israel.

In February 2007 we listed our shares on the NYSE and in July 2007 we dual listed our shares on the Tel Aviv Stock Exchange, or TASE and began applying the reporting leniencies afforded under the Israeli Securities Law to companies' whose securities are listed both on the NYSE and the TASE.

As of the date of this Annual Report on Form 20-F, there has been no indication of any public takeover offer by any third party, respecting our ordinary shares, or by us, respecting another company's shares.

Principal Capital Expenditures

Our accrual capital expenditure in 2006, 2007 and 2008 amounted to NIS 521 million, NIS 573 million and NIS 556 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and other assets, such as spectrum licenses, UMTS networks' enhancement and expansion and development of new products and services during a given period. For the periods under review, a key focus of our capital investment has been the enhancement and expansion of our networks.

B. BUSINESS OVERVIEW

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues from services, cost efficiencies, EBITDA and EBITDA margin for the year ended December 31, 2008. Upon launch of our services in 1994, we offered significantly lower prices for cellular communications services than the incumbent provider and transformed the nature of cellular telephone usage in Israel, turning it into a mass market consumption item. We surpassed the incumbent cellular operator and became the market leader in terms of number of subscribers in 1998 and, despite the entry of two additional competitors, we have continued since then to have the highest number of subscribers. As of December 31, 2008, we provided services to approximately 3.187 million subscribers in Israel with an estimated market share of 34.7%. Our closest competitors have estimated market shares of 31.6% and 29.7%, respectively. In the year ended December 31, 2008, we generated revenues of NIS 6,417 million ($1,688 million), EBITDA of NIS 2,406 million ($633 million), and operating income of NIS 1,684 million ($443 million). See note 2 to the table in "Item 3. Key Information – A. Selected Financial Data" for a definition of EBITDA.

We offer a broad range of cellular services through our cellular networks covering substantially all of the populated territory of Israel. These services include basic and advanced cellular telephone services, text and multimedia messaging services and advanced cellular content and data services. We also offer international roaming services in 174 countries as of December 31, 2008. We offer our subscribers a wide selection of handsets from various leading global manufacturers, as well as extended warranty and repair and replacement services. We also offer landline transmission and data services to business customers and telecommunications operators and, since July 2006, we offer landline telephony services to selected businesses, using our advanced inland fiber-optic infrastructure.

The following table presents our number of subscribers and revenues for each of the last five years:

	Year Ended December 31,				
	2004	2005	2006	2007	2008
Subscribers (end of period) (in thousands)(1)	2,450	2,603	2,884	3,073	3,187
Revenues (in NIS millions)	5,600	5,114	5,622	6,050	6,417

(1) Subscriber data refer to active subscribers. Until June 30, 2006, we had a three-month method of calculating our subscriber base, which means that we deduct subscribers from our subscriber base after three months of no revenue generation or activity on our network by or in relation to both the post-paid and pre-paid subscribers. Commencing July 1, 2006, we adopted a six-month method of calculating our subscriber base since many subscribers that were inactive for three months become active again before the end of six months. We have not restated our prior subscriber data presented in this table to reflect this change. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel. This change in methodology resulted in an increase of our number of reported subscribers by approximately 80,000 compared to the prior methodology and affected our other key performance indicators accordingly.

We also revised our subscriber calculation methodology and 2005 but we have not restated prior subscriber data to conform to the new presentation. We estimate that the change in methodology in 2005 led to an increase in our reported subscriber numbers of approximately 84,000.

The Telecommunications Industry in Israel

The following table sets forth selected macro statistics about Israel at and for the year ended December 31, 2008:

Population (millions, at end of year)	7. 4
GDP ($ billions)	200
GDP per capita ($ 000)	27.3
Exports of goods & services ($ billions)	80.4
CPI change	3.8%
Long-term local currency sovereign credit rating by S&P	A(Stable)
Unemployment rate (yearly average)	6.1%

Source: Central Bureau of Statistics 2008 and Ministry of Finance of Israel, 2008.

The size of Israeli telecommunications services revenues in 2007 was approximately NIS 28 billion and telecommunications spending was approximately 4.2% of GDP, higher than in developed economies such as the European Union and the United States. Telecommunications services consist of several segments, which, except for landline services, are highly competitive. We estimate that, of the total telecommunications services revenues in 2007, approximately 55% was comprised of cellular services, approximately 25% was local landline voice and Internet access services, approximately 6% was international voice services, approximately 12% was multichannel television services, and approximately 2% was Network Termination Point.

Israel has high penetration rates across all telecommunications services that are in line with or higher than developed economies such as the European Union and the United States. These levels of penetration can be attributed to the rapid adoption rate of new technologies, high expenditures on telecommunications services by consumers and businesses and a relatively young population.

Cellular Services

Cellular telephone services were first introduced in Israel in 1986. For the first nine years of cellular operations there was only one operator, Pelephone, a subsidiary of Bezeq, and growth of cellular telephone services, as well as penetration rates, was limited. After the commercial launch of Cellcom in December 1994, cellular penetration rates and cellular phone usage increased significantly. This is mainly due to the fact that our license was awarded to us based upon, among other things, our commitment to offer our services at low prices during the first five years of our operation.

The Israeli cellular market is highly penetrated. The market reached an estimated penetration rate (the ratio of cellular subscribers to the Israeli population) at December 31, 2008, of approximately 125%, representing approximately 9.2 million cellular subscribers.

The following table sets forth the growth in the total number of cellular subscribers in Israel and the penetration rate over the last five years:

	December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
Total subscribers (millions)	7.2	7.8	8.4	9.0	9.2
Cellular penetration (%)	105	112	118	124	125

Source: Reported by Cellcom, Partner and Pelephone (Pelephone's most updated report dates 3rd quarter 2008). Cellcom estimates for MIRS as MIRS does not disclose operating information.

There are currently four cellular operators in Israel: Cellcom, Partner, Pelephone, and MIRS. We estimate that the distribution of cellular subscribers among these operators as of December 31, 2008 was: Cellcom 34.7%, Partner 31.6%, Pelephone 29.7% and MIRS 4.0%. Subscriber data are based on public information (Pelephone's data is updated to 3rd quarter 2008) except for MIRS, which is based on our estimate. However, there is no uniform method of counting subscribers.

We are controlled by DIC, a subsidiary of IDB, and started operations at the end of 1994. Partner is majority-owned by Hutchinson Whampoa Ltd. and started operations in 1998. Pelephone is a wholly-owned subsidiary of Bezeq and started operations in 1986. The major controlling shareholder of Bezeq following its privatization in 2005 is a consortium comprised of Saban Capital Group (controlled by the media entrepreneur Haim Saban), Apax Partners (the international private equity firm) and Arkin Communications (controlled by the Israeli businessman Mori Arkin). MIRS, wholly owned by Motorola, had its license upgraded from push-to-talk to a cellular license in February 2001.

The following listing sets forth the key milestones in the history of the Israeli cellular services:

1986 Bezeq and Motorola create a joint venture called “Pelephone”, which becomes Israel's first cellular operator. Pelephone launches N-AMPS services

1994 Cellcom awarded a license and launches TDMA services

1997 Cellcom introduces first pre-paid plan to the market

1998	Partner awarded a license and launches GSM services
1998	Pelephone launches CDMA services
2001	Ministry of Communications allocates additional 2G and 3G cellular frequencies for existing cellular operators and for the licensing of a new operator
2001	MIRS becomes Israel's fourth cellular operator with iDEN services
2002	Cellcom launches GSM/GPRS services
2003	Cellcom launches EDGE services
2004	Partner launches UMTS services
	Pelephone launches EVDO services
2006	Cellcom launches full scale UMTS/HSDPA services
2007	Partner launches HSDPA services
2008	Cellcom launches HSPUA services;
2009	Pelephone launches UMTS/HSPA services

Key characteristics of the Israeli cellular services market

The following paragraphs describe the key characteristics of the Israeli cellular services market:

High cellular telephone penetration. The estimated penetration rate in Israel as of December 31, 2008 was 125%. Penetration rate is calculated by dividing the total number of subscribers by the Israeli population. The Israeli population does not include foreign workers and Palestinian subscribers who are included in the number of subscribers. The number of subscribers may also include subscribers to more than one network including those in the process of switching networks. As a result, the effective penetration rate after adjustment for these factors is likely to be lower than 125%.

Favorable demographics. Population growth is generally high and the population is relatively younger than in developed economies.

Favorable geography and high population density around a few urban centers. Israel covers a small area of territory of approximately 8,000 square miles (20,700 square kilometers). In addition, Israel is relatively flat and dry. Moreover, the population tends to be concentrated in a small number of geographical locations. These characteristics facilitate efficient network roll out and maintenance.

High cellular voice usage. The average cellular voice usage per subscriber in Israel is well over 300 minutes per month, which is higher than the average cellular voice usage per subscriber in most developed economies.

Low average voice revenue per minute. Cellular operators in Israel have lower average voice revenues per minute than in most developed economies. This is a consequence, among other things, of the importance given to low prices in the first five years of our operation, in the awarding criteria during the original licensing process for a second cellular operator, strong competition and a heavy regulated environment.

Different cellular technologies. We use TDMA, GSM/GPRS/EDGE and UMTS/HSPA networks. Partner uses GSM/GPRS and UMTS/HSDPA networks. Pelephone uses CDMA, CDMA1x and EVDO networks and a recently launched UMTS/HSPA network. MIRS uses an iDEN network.

High potential for value-added services. The contribution of non-voice revenues to total revenues in the Israeli cellular market is below the level of developed markets such as the European Union. This characteristic is attributable in part to the low voice tariffs in Israel compared to the tariffs in other markets, which has the effect of keeping text messaging usage low and in part, due to late launch of advanced added value services in Israel. We believe that there is potential for narrowing this gap by increasing marketing efforts of new content services and the growth in our existing 3G subscriber base. Moreover, the percentage of post-paid subscribers is relatively high when compared to developed economies, which we believe facilitates the acceptance of value-added services.

Calling party pays. In Israel, as in all western European countries, the party originating the call pays for the airtime. Cellular telephone network operators do not charge subscribers for calls received on their handsets, except while roaming abroad.

Low annual churn rates. The average annual churn rate in Israel was approximately 18-19% in 2008, which is lower than the churn rates in developed economies This churn rate embodies a slight increase in churn rate attributed to the implementation of number portability in December 2007.

Landline Services

Voice Services

Bezeq operates approximately 2.65 million lines and provides local services. The second largest competitor in landline telephony services is HOT Telecom, or HOT, a provider of cable TV services, which started landline operations in late 2003. HOT's network has been upgraded to offer Internet, data and voice services.

In recent years, Bezeq has experienced a significant drop in its traffic volume. Bezeq is a monopoly and thus subject to enhanced regulatory scrutiny, including supervision of tariffs.

There are three players that have entered this market in 2006, including us. Partner entered this market in 2007, bringing to a total of six players. Bezeq International (a wholly-owned subsidiary of Bezeq) has recently received a VOB license as well.

Broadband and Internet services

Israeli broadband services are characterized by high growth and high penetration levels. The Ministry of Communications estimates that at the end of 2007, there were 1.58 million subscribers, and the household penetration rate was 59.3%. Also, approximately 99% of Bezeq's lines enable broadband services.

The dominant landline broadband access technologies are ADSL and cable. ADSL services were launched by Bezeq in 2000 and currently represent a 65% share of broadband connections. Cable modems, which account for the rest of the market, have been available since 2002. We offer similar services using cellular modem and router as well as data communication services over broadband.

Transmission and landline data services are provided by Bezeq, HOT, Partner (who acquired Med-1's operation in 2006) and us. These services are provided to business customers and to telecommunications operators.

Internet access is currently provided by three major Internet service providers, or ISPs: NetVision 013 Barak, or Netvision, (an indirect subsidiary of IDB), Bezeq International, Smile - Internet Gold (a subsidiary of Internet Gold), and some other niche players. All these major providers are also suppliers of international voice services. In addition, Partner entered this market in December 2008.

International voice services

International voice services in Israel have been open for competition since December 1996. Until then, Bezeq International, was the only supplier of such services. There are currently four players in this market. The three major players are: Bezeq International, Netvision and Internet Gold Smile. The fourth player is Xfone Communications. Today there is no single dominant player in this market, and competition is very intense.

Multichannel television

The multichannel pay-TV market is also highly penetrated with levels above those of most developed economies. Multichannel pay-TV services are provided by HOT and by YES, a subsidiary of Bezeq. Regulatory change allowing digital terrestrial television broadcasting, expected to be implemented in 2009, may attract additional players into this market.

Competitive Strengths

We believe that the following competitive strengths will enable us to maintain and enhance our position as the leading provider of cellular communications services in Israel:

- *Combination of leading market position and strong operational momentum.* In 2008, we maintained our market-leading position, as reflected in our subscriber base, revenues from services, cost efficiencies, EBITDA and EBITDA margin growth, leveraging a series of brand, customer service and content initiatives, as well as cost efficiencies initiatives regarding essential operational processes within our company.

- *Strong and distinctive own brand.* Our established brand enjoys strong recognition in Israel. We consider the enhancement of our image among consumers a top priority and continue to invest substantial resources to maintain Cellcom as a local cellular company with a warm personal touch. Our focus on music and music-related content services, particularly our "Cellcom Volume" initiative, is our leading marketing theme and one that associates us with the important growth opportunity presented by advanced cellular content and data services.

- *Transmission infrastructure and landline services*. We have an advanced fiber-optic transmission infrastructure that consists of approximately 1,430 kilometers of inland fiber-optic cable, which, together with our complementary microwave-based infrastructure, connects the majority of our cell sites and provides for substantially all of our backhaul services. Our transmission infrastructure significantly reduces our operational reliance on Bezeq, the incumbent landline operator in Israel, while also saving us substantial infrastructure-leasing cash costs. As our transmission network has transmission and data capacity in excess of our own backhaul needs, and

covers the majority of Israel's business centers and parks, we offer transmission and data services to business customers and telecommunications providers. In addition, since July 2006, following the receipt of a landline transmission, data and telephony services license, we offer landline telephony services to selected businesses and as of February 2008, we offer additional advanced landline services to selected landline business customers, through our newly acquired NGN system.

- *Strategic relationship with one of Israel's leading business groups*. Our ultimate parent company, IDB, is one of the largest business groups in Israel. We enjoy access, through our management services agreement, to the senior management of the IDB group, who are some of the most experienced managers in Israel. These managers, including veterans of the Israeli telecommunications market, provide us with financial, managerial and strategic guidance.

- *Strong management team*. Since DIC acquired control of us in September 2005, we have put in place a team of seasoned managers with significant experience and solid track records in previous managerial positions. Our Chairman, Mr. Ami Erel, is a veteran of the Israeli communications market and previously served as the chief executive officer of Bezeq. Our chief executive officer, Mr. Amos Shapira, has been chief executive officer of Kimberly-Clark's Israeli subsidiary and of El Al Airlines, where he was credited with its successful restructuring and improvements in customer service. Our chief financial officer, Mr. Tal Raz, has extensive experience in the Israeli cellular market, as he was involved in the formation of one of our main competitors, Partner, and served as a member of its board of directors. Our VP Marketing, Mr. Adi Cohen had been marketing manager of Shufersal, Israel's largest retail chain, and previously, Partner's marketing manager. Under the leadership of Messrs. Erel, Shapira, Raz and Cohen, we have demonstrated significant improvements in our operating results and believe that we are well positioned to continue this trend and to execute our business strategy.

- *Strong cash flow generation*. We have a proven track record of strong financial performance and profitability with cash operating margins. As a result, we have been able to invest in our business and deploy advanced network technology so that we can offer advanced services and applications, as well as distribute dividends to our shareholders.

Business Strategy

Our goal is to strengthen our position as the leading cellular provider in Israel. The principal elements of our business strategy are:

- *Maximize customer satisfaction, retention and growth.* Our growth strategy is focused on retaining our subscribers and expanding the selection of services and products we offer to our subscribers in order to enhance customer satisfaction and increase average revenues per user. We strive to be proactive at every service interaction with our customers, to offer a service which is as clear, simple and methodical as possible and to continually improve and

enhance the flexibility of our customer service. In addition to providing quality customer service, we also strive to retain our subscribers and attract new subscribers by offering them advanced handsets, handset upgrades, attractive calling plans and value-added services. In 2006, we introduced a "churn lab" that identifies subscribers at high risk of churn and seeks to preemptively approach them with tailored solutions to maintain their satisfaction with our services.

- *Grow and develop our Internet, content and data services*. The usage of cellular content and data services in Israel is currently relatively low compared to western European countries, attributed to Israel launching 3G services two years after its European peers. The usage of our Internet, content and data services are relatively low in comparison to our competitors since we launched our third generation content and data services 18 months after our competitors and we believe that we have significant growth potential in this field. As of December 31, 2008 approximately 731,000 of our subscribers are 3G subscribers, mostly post paid. We intend to continue to invest in the improvement and upgrade of our high speed UMTS/HSPA network, mainly to enhance its capacity and increase its speed, in order to permit higher-quality and higher-speed multimedia content transmission.

  We also plan to utilize our momentum in the arena of Israeli music content to expand our content and data services, products and capabilities through in-house expertise and strategic relationships with leading cellular content providers, with special emphasis on original Israeli culture and music content and usage enhancing content and applications in the cellular and complementary media. In 2008 we have continued to invest in "Cellcom Volume", our music-related initiative (featuring, among other things, our cellular music portal), due to its contribution to our revenues, brand identity and popularity amongst users in general and youth in particular. We also launched data-enhancing products, including a cellular modem and a cellular router allowing both Internet and cellular communications for landline phones in addition to our cellular communication, thus providing a complete communication solution for our small business costumers and as of February 2009, for the private consumer sector as well.

- *Further develop and strengthen the Cellcom brand*. External market surveys that we have commissioned indicate that brand recognition is an important factor in subscriber selection of, and loyalty to, a cellular operator. Due to our extensive efforts in the past few years, we believe that we have established the Cellcom brand as one of the most recognized and respected consumer brands in Israel. We plan to continually enhance our brand through maintaining our high network quality, the provision of innovative products and services, quality customer service and investments in advertising and promotional campaigns. We believe these enhancements are key to maintaining our competitive advantage, differentiating our services from those of our competitors and establishing and maintaining a successful relationship with our subscribers.

- *Optimize our cost structure.* We intend to continue our efforts to control costs so that we can improve profitability while also improving the quality of our

services. In addition, having already built our own fiber-optic and microwave infrastructure reduces our operating costs, as our network maintenance costs and microwave spectrum fees are lower than the lease costs to rent backhaul capacity from Bezeq. In 2008 we continued our focus on cost efficiencies and identifying further opportunities to manage our costs without reducing the quality of our service, such as changing handsets repair and car phone installation processes.

- *Capitalize on our existing infrastructure to selectively provide landline telephony services*. Our over 1,400 kilometer inland fiber-optic network and our microwave infrastructure provide us with the ability to offer cost-efficient landline telecommunications solutions. We hold a license to operate a landline service in Israel and, since July 2006, we offer our landline telephony service to selected businesses. As of February 2008, we offer additional value added landline services to selected businesses, through our NGN system, such as toll free number dialing, call forward and fax to mail, which will enable us to penetrate the residential sector as well, should we choose to do so.

Services and Products

As of December 31, 2008, we provide cellular communications services to approximately 3.187 million subscribers, including basic cellular telephony services and value-added services as well as handset sales. We regularly evaluate , including through discussions with potential partners, ways to add additional communications and other services to our portfolio. Not all services are supported by all handsets or by all of our networks. In addition, we offer transmission and data services to business customers and telecommunications operators. Since July 2006, we have offered our landline telephony service to selected businesses.

We offer our cellular subscribers a variety of calling plans, designed to adapt to their particular characteristics and changing needs. We adapt our calling plans for the different types of usage – personal or business – and the number of users associated with the subscriber. For example, we offer discounted rates on the weekend for soldiers, Israeli music services to youth and discounted rates on calls among members of immediate families. We offer two methods of payment: pre-paid and post-paid. Pre-paid services are offered to subscribers who pay for our services prior to obtaining them, usually by purchasing our "Talkman" pre-paid cards or "virtual" Talkman cards. Post-paid services are offered to subscribers who are willing to pay for our services through banking and credit arrangements, such as credit cards and direct debits. Some of our post-paid subscribers are not under a commitment to purchase our services for a predefined period and some do not pay a monthly fee.

Basic cellular telephony services

- Our principal service is basic cellular telephony. In addition we offer many other services with enhancements and additional features to our basic cellular telephony service. These services include voice mail, cellular fax, call waiting, call forwarding, caller identification, conference calling, "Push-and-Talk" service (which allows subscribers to initiate a call with one or more other persons using a designated button in their handset without having to dial a number), "Talk 2" (two handsets sharing the same number, thus allowing our

subscribers to own both a handset and a car phone), additional number service (enables our subscribers to add a second phone number to their handset) and collect call service (a self-developed service protected by our U.S. patent).

- We also offer both an outbound roaming service to our subscribers when traveling outside of Israel and an inbound roaming to visitors to Israel who can "roam" into our network. Roaming allows cellular subscribers, while using their own cell phone number (and handset, in most cases) and being billed by their provider, to place and receive calls and text messages while in the coverage area of a network to which they do not subscribe. Where available, subscribers can also benefit from other cellular services such as advanced data and content services. As of December 31, 2008, we had commercial roaming relationships with 520 operators in 174 countries based on the standard agreements of the GSM organization (an umbrella organization in which all the cellular operators operating with GSM technology are members). This enables our subscribers to enjoy our services in almost the entire world. Most of our GSM subscribers who use these roaming services abroad can use their own handset and others can borrow or rent, depending upon the period of time, a suitable handset from us. In addition, as of December 31, 2008, we had 3G roaming arrangements with 124 of these operators, enabling our 3G roamers to participate in video calls and use high-speed data, video and audio content services in 55 countries.

Value-added services

- In addition to basic cellular telephony services, we offer many value-added services. Value-added services are important to our business as they enable us to differentiate ourselves from our competitors, strengthen our brand and increase subscriber usage, ARPU and subscriber satisfaction. We offer those services that we believe are likely to be popular with subscribers and benefit our business. Some of the value-added services that we offer are available only to subscribers who have supporting handset models and some are offered only to business subscribers. The principal advanced value-added services that we currently offer, some of which are exclusive to us, are:

  Cellcom Volume. This music-related marketing initiative is focused not just on providing a rich downloadable content consisting of ringtones, video tones, true tones and songs in MP3 format through our popular cellular music portal, but also on promoting Israeli music and local musicians and supporting youth music centers. In addition, handsets supporting music content, as well as other merchandising, are marketed under the "Cellcom Volume" service. Complementary services provided through Cellcom Volume include "Fun Dial," which enables our subscribers to have callers listen to our subscribers' favorite music instead of the regular ringing tone while waiting to be connected, and "Gift Song," which enables subscribers to send songs to friends with a personally recorded introduction.

  SMS and MMS services. These messaging services enable subscribers to send and receive text (SMS), photos, multimedia and animation (MMS) messages. Additional applications enable our subscribers to send SMS messages to a large number of handsets simultaneously.

Access to third party application providers. We provide our subscribers with access to certain services offered by third party application providers. These services include, among others: a service that allows subscribers to receive notification of roadway speed detectors in their vicinity; a service (using a cellular modem) that provides a comprehensive system for the management of vehicle fleets and a service that enables subscribers to remotely manage and operate time clocks and various controllers for industrial, agricultural and commercial purposes.

Video calls. This service enables our 3G users, using 3G handsets, to communicate with each other through video applications.

Zone services. This service provides discounts on airtime for calls initiated from a specific location, such as a university campus. Our network identifies the location from which the call is initiated in order to apply the discounted rate on the call.

Location-based services. We offer a number of location-based services. For example: "Cellcom Navigator" is a service provided through a third party that enables our subscribers to receive real-time travel directions, that take account of the traffic condition and visual data regarding their position using global positioning system, or GPS, technology.

Other information and content services. We also provide other information and content services, some provided directly by us and some by third party content providers. For example, we provide voice-based information services through interactive voice response platforms, or IVR, including interactive information services and radio and TV programs. We also provide text-based information services and interactive information services including news headlines, sports results, and traffic and weather reports. Some of these services are provided through our MMS or video-based technologies, and are offered to subscribers with supporting handsets.

Data services - We offer our subscribers a variety of channels to facilitate their access to data services, including handsets (in supporting models), cellular modems and cellular routers. Usage of our cellular modem services increased substantially in 2008, following our marketing initiatives including an "unlimited surfing package". The cellular router enables the use of landline communication devices such as phones, faxes and computers, over the cellular network, in addition to our cellular communications services, thus providing a complete communication solution for small businesses and as of February 2009, for the private consumer sector as well.

We have established relationships with content providers to provide us content for our value-added services, including Logia Development and Content Management Ltd., or Logia, to manage and develop cellular content in Israel exclusively for us. Our agreement with Logia has a one-year term renewable annually and grants us an option to acquire 51% of Logia's equity or 51% of Logia's cellular content activity for us, at any time during the term of the agreement. Exercise of the equity option will be at a value to be set by an independent appraiser whereas exercise of the content option would be at no cost to us.

Handsets

We sell a wide selection of handsets designed to meet individual preferences. Prices of handsets vary based on handset features, calling plans and special promotions. In most cases, handsets are to be paid in 36 monthly installments. We offer a variety of handsets from world-leading brands such as Nokia, Motorola, Sony-Ericsson Samsung, LG and RIM. The handset models we sell offer Hebrew language displays in addition to English, Arabic and Russian (in most of the models). We are also required to provide cellular phone services to subscribers who did not purchase their handsets from us, provided that the handset model has been approved for use by the Ministry of Communications. We offer our subscribers an extended handset warranty for their handsets as well as repair and replacement services in approximately 30 walk-in centers. See also "Customer Care" below.

Landline services

In addition to our cellular services, we provide landline telephony, transmission and data services, using our approximately 1,430 kilometers of inland fiber-optic infrastructure and complementary microwave links. We have offered transmission and data services since 2001. We received a license to offer landline telephone service in April 2006 and, since July 2006, have been offering this service to selected businesses. Through our newly acquired NGN system, we are the first landline operator in Israel to provide advanced, voice and data services, to selected business customers, as of February 2008. Revenues from these services increased significantly in 2008 and we consider landline telephone services to be a substantial growth opportunity. The Ministry of Communications' recent adoption of the recommendation of a public committee regarding unbundling of Bezeq's network, may facilitate our growth in this market but also the entry of additional competitors. See "Item 4. Information on the Company – B. Business Overview – Competition."

Network and Technology

General

Our network has developed over the years since we commenced our operations in 1994 and we now have dual cellular and landline capabilities.

Our "third generation" UMTS/HSPA, or high-speed downlink packet data access, technology, offers full interactive multimedia capabilities with current data rates of up to 2.8Mbps on the downlink path and up to 1.4 Mbps on the uplink path. We were the first operator in Israel to offer data transfer in the uplink path at such high speed. During 2009 we intend to further increase the downlink path speed up to 7.2Mbps in selected urban areas. This network, considered to be a "3/3.5G" technology, is a network that uses the same core as our GSM/GPRS/EDGE network. Our UMTS/HSPA network covers substantially all of the populated territory in Israel. Moreover, our UMTS/HSPA network supports new types of services that require higher throughput and lower delay, such as video conferencing.

Our "second generation" GSM/GPRS/EDGE 1800MHz network allows for voice calls, data transmission and multimedia services, like video streaming and video live (using the EDGE technology), although at slower speeds than our UMTS/HSPA network. Our GSM/GPRS/EDGE technology is an advanced second-generation technology and considered to be a "2.75G" technology. It enables us to deliver multimedia and services at speed rates that are higher than the rates offered through regular "second generation" digital cellular technology. Packet data rates vary from 50 Kbps to 200 Kbps, depending mainly on handset

capabilities. In addition, in the case of coverage gaps and for services supported by our GSM/GPRS/EDGE technology, the network provides an adequate fallback and capacity relief for our UMTS/HSPA network by means of smart features and network load sharing. Approximately 99% of our traffic uses our GSM/GPRS/EDGE and UMTS/HSPA networks, with substantially all of that traffic using the GSM/GPRS/EDGE network.

We also have a separate network using our initial TDMA 850MHz wireless technology, which is widely used as a "second generation" technology in North and South America. Approximately 1% of our traffic uses this network. This technology supports voice calls and low rate data services known as CSD (circuit switch data) and CDPD (cellular digital packet data). Our TDMA network, which is based on Nortel technology, is maintained and operated by our engineers and technicians. Operating costs for this network are low and we expect that it will not require additional capital expenditures.

Our transmission network is comprised of approximately 1,430 kilometers of inland advanced fiber-optic cables that, together with our microwave infrastructure, enable us to provide our customers with telephony and high speed and high quality transmission and data services. Our transmission network is strategically deployed in order to cover the major portion of Israel's business parks and permits us to provide our own backhaul services while reducing our need to lease capacity from Bezeq, the incumbent landline operator in Israel. Our NGN system by Nokia Siemens, allows the provision of advanced voice and data services to our landline customers.

Infrastructure

We have built an extensive, durable and advanced cellular network system, enabling us to offer high-quality services to substantially the entire Israeli populated territory. Since maintaining a high-quality network is a basic element in our business strategy, we seek to satisfy quality standards that are important to our subscribers, such as high voice quality, high data rate packet sessions, low "blocked call" rate (calls that fail because access to the network is not possible due to insufficient network resources), low "dropped call" rate (calls that are involuntarily terminated) and deep indoor coverage. As a result, we have made substantial capital expenditures and expect to continue to make capital expenditures on our network system. As of December 31, 2008, we had invested an aggregate of NIS 7.824 billion ($2.058 billion) on our network infrastructure since our inception in 1994.

We cover substantially all of the populated areas of Israel with both our UMTS/HSPA network and our GSM/GPRS/EDGE network. Our UMTS/HSPA network is mostly co-located with our GSM/GPRS/EDGE network. The suppliers of our UMTS/HSPA network are Ericsson Israel (for the 3G radio access network) and Nokia (for our core network). The supplier of our GSM/GPRS/EDGE network is Nokia. Ericsson and Nokia, each with respect to the network supplied by it to us, provide us with maintenance services.

We are currently selectively enhancing and expanding both our UMTS/HSPA network and our GSM/GPRS/EDGE network, primarily in urban areas, by adding infrastructure to improve outdoor and indoor coverage.

Our TDMA network, which is based on Nortel technology, is maintained and operated by our engineers and technicians.

Pursuant to the requirements of our license (as well as the licenses of the other telephony service providers in Israel), our network is interconnected, either directly or indirectly, to the networks of all other telephony service providers in Israel. Our network monitoring system provides around-the-clock surveillance of our entire network. The network operations center is equipped with sophisticated systems that constantly monitor the status of all switches and cell sites, identify failures and dispatch technicians to resolve problems. Operations support systems are utilized to monitor system quality and identify devices that fail to meet performance thresholds. These same platforms generate statistics on system performance such as dropped calls, blocked calls and handoff failures. Our network operations center is located in our Netanya headquarters. In addition, we have a partial duplicate backup center in Kiryat Gat, located approximately 80 kilometers south of Netanya.

Network design

We have designed our TDMA, GSM/GPRS/EDGE and UMTS/HSPA networks in order to provide high quality and reliability well beyond the requirements set forth in our license while using a cost-effective design, utilizing shared components for our networks, where applicable.

Our primary objective going forward is to improve and upgrade our high speed UMTS/HSPA network, mainly by enhancing its capacity and increasing its speed, in order to permit higher-quality and higher-speed multimedia content transmission. At the same time we intend to continue to perform extensive optimization work to provide our subscribers with maximum capability to support video and other broad-bandwidth content.

Network performance

We continually optimize our entire network in order to meet the key performance indicators for our services, including dropped calls, voice quality, accessibility, availability and packet success rate. We use advanced planning, monitoring and analyzing tools in order to achieve our performance goals efficiently and with minimum faults.

The two main indicators that we use to measure network performance for voice and packet data are the “blocked call” rate and the “dropped call” rate. Our levels of blocked and dropped calls are better than those required by our license and since we commenced operations we have steadily improved our rate of both blocked calls and dropped calls.

Spectrum allocation

Spectrum availability in Israel is limited and is allocated by the Ministry of Communications through a licensing process. We have been allocated 2x10 MHz in the 850 MHz frequency band used by our TDMA network and since 2008, 2x5 MHz of which are used by our UMTS/HSPA 850 MHz base stations, deployed for coverage improvement evaluation (we are also considering its extension to additional areas), and 2x17 MHz in the 1800 MHz frequency band used by our GSM/GPRS/EDGE network. In addition, the Ministry of Communications awarded us 2 x 10 MHz and 1 x 5 MHz in the 1900 - 2200 MHz frequency band for our UMTS third generation FDD and TDD spectrums, respectively. In December 2008, we returned the TDD spectrum to the Ministry of Communications, after not being able to use that spectrum since it was awarded to us in 2001, due to unavailability of supporting equipment. We believe that our available spectrum is sufficient for our needs.

Cell site construction and licensing

We construct cell sites based on our strategy to expand the geographical coverage and improve the quality of our network and as necessary to replace cell sites that need to be removed. Our acquisition teams survey the area in order to identify the optimal location for the construction of a cell site. In urban areas, this would normally be building rooftops. In rural areas, masts are usually constructed. Our transmission teams also identify the best means of connecting the base station to our network, based on our independent transmission network, either by physical optical fiber, microwave link or Bezeq landlines. Once a preferred site has been identified and the exact equipment configuration for that site decided, we begin the process of obtaining all necessary consents and permits. The construction of cell sites requires building permits from local or regional authorities, or an applicable exemption, as well as a number of additional permits from governmental and regulatory authorities, such as construction and operating permits from the Ministry of Environmental Protection in all cases, permits from the Civil Aviation Authority in most cases and permits from the Israeli Defense Forces in some cases. In special circumstances, additional licenses are required. See "Item 4. Information on the Company – B. Business Overview – Government Regulations—Permits for Cell Site Construction."

Suppliers

We entered into an agreement with LM Ericsson Israel Ltd., or Ericsson Israel, in September 2005 for the purchase of UMTS radio access network and ancillary products and services. We committed to purchase maintenance services for five years from the launch of the system (until 2011). We have an option to purchase additional maintenance services on an annual basis for 20 years from the launch of the system (until 2026). We also agreed to purchase from Ericsson at least 60% of the 3G cell sites that we purchase by September 2010. Under the agreement, the parties generally have limited liability for direct damages of up to 40% of the value of the agreement.

We entered into an agreement with Nokia Israel Communications Ltd., or Nokia Israel, in July 2001 for the purchase of our GSM/GPRS system. We were also granted an option to purchase GSM 800, EDGE, UMTS and ancillary systems. In 2002, we exercised our option to purchase an EDGE system, and in 2005, we purchased a UMTS core system, under similar terms. Nokia Israel is obligated to offer us maintenance services for 15 years from final acceptance (until 2017). Under the agreement, the parties generally have limited liability for direct damages of up to 10% of the value of the agreement.

We use Telcordia's intelligent platform, or "IN," to provide services to our TDMA, GSM/GPRS/EDGE and UMTS networks, allowing us, at minimal cost, to internally develop sophisticated services with a short time-to-market that are customized to local market requirements. We have also deployed Comverse's Intelligent Peripheral, which enables us to develop services with rich voice interaction, such as Caller Name Announcement, Call Back and Fun Dial. Our IN platform supports all relevant IN protocols, which allows us to provide (subject to applicable roaming agreements) advanced roaming services, including Virtual Home Environment, abbreviated dialing, unified access to voice mail, VPN, local number format from subscribers' phone book and call screening.

In addition, we have agreements with several Israeli engineering companies for the construction of our cell sites. We also purchase certain network components from other suppliers.

Transmission Network

Our transmission network provides us with landline connectivity for our cellular and landline network in substantially all of the populated territory of Israel. It is based on our fiber-optic network and complementary microwave infrastructure. Our transmission network includes links to our internal network and to our landline and transmission subscribers.

Our optical transmission network is deployed from Nahariya in the north to Beer Sheva in the south and Afula and Jerusalem in the east, consisting of approximately 1,430 kilometers. The fiber-optic network reaches most of the business parks in the country and is monitored by a fault-management system that performs real-time monitoring in order to enable us to provide our subscribers with high quality service. In order to efficiently complete our transmission network's coverage to substantially the entire country, we use a microwave network as a complementary solution in those areas that are not served by our fiber-optic network. As of December 31, 2008, we had deployed approximately 2,400 microwave links to both our cell sites and subscribers.

To supplement our transmission network, we lease a limited amount of transmission capacity from Bezeq, the incumbent landline operator.

Information technology

We maintain a variety of information systems that enable us to deliver superior customer service while enhancing our internal processes.

We use Amdocs' customer care and billing system. We entered into our agreement with Amdocs (UK) Limited, or Amdocs UK, in February 1999 for the supply of a central computer system for customer care, billing and collection capable of generating customer profiles based on various usage patterns. This system is based on Amdocs UK's generic pricing system and is customized to our specific requirements. We own the intellectual property rights for the customized developments. We currently purchase maintenance services for the generic system from Amdocs UK and ongoing support services from its affiliate, Amdocs (Israel) Limited. Amdocs (UK) is obligated to offer us maintenance services until May 2011. Under the agreement, the parties' current liability for direct damages is limited to $500,000.

We use Nortel's CTI system for the management of incoming calls to our telephonic call centers.

Our customer care system presents our customer care employees with a display of a subscriber's profile based on various usage patterns. This enables us to provide a service based upon information for that particular subscriber.

We use ERP solutions by SAP. We use a data warehouse based on an Oracle data base system and various data mining tools, ETL by Informatica and reports generated by Cognos. The data warehouse contains data on our subscribers' usage and allows for various analytical segmentation of the data.

Sales and Marketing

Sales

As part of our strategy to fully penetrate every part of the Israeli market, we are committed to making the purchase of our services as easy and as accessible as possible. We offer calling plans, value-added services, handsets, accessories and related services through a broad network of direct and indirect sales personnel. We pay our independent dealers commissions on sales, while our direct, employee sales personnel receive base salaries plus performance-based incentives. We focus on subscriber needs and conduct extensive market surveys in order to identify subscribers' preferences and trends. Based on these findings, we design special calling plans and promotional campaigns aimed at attracting new subscribers and enhancing our ability to provide new services to existing subscribers. From time to time, we offer our subscribers rebates and other benefits for handset purchases. See "Item 3 – Key Information – D. Risk Factors – Risks Related to our Business – We may be subject to increased regulation in respect of handset sales" for a possible change in that respect. Our distribution and sales efforts for subscribers are conducted primarily through four channels:

Points of sale. We distribute our products and services through a broad network of physical points of sale providing us with nationwide coverage of our existing and potential subscriber base.

We operate directly, using our sales force and service personnel, in approximately 30 physical points of sale and service, mostly located in shopping centers and other frequently visited locations to provide our subscribers with easy and convenient access to our products and services. We record approximately 230,000 subscriber applications per month in our direct points of sale and service.

We also distribute our products and services indirectly through a chain of dozens of dealers who operate in approximately 140 points of sale throughout Israel. Our dealers are compensated for each sale based on qualitative and quantitative measures. We closely monitor the quality of service provided to our subscribers by our dealers. In our efforts to penetrate certain sectors of our potential subscriber base, we select dealers with proven expertise in marketing to such sectors.

Telephonic sales. Telephonic sales efforts target existing and potential subscribers who are interested in buying or upgrading handsets and services. Our sales representatives (both in-house and outsourced) offer our customers a variety of products and services, both in proactive and reactive interactions.

Door-to-door sales. The door-to-door sales team is comprised of approximately 200 dealers' sales representatives, as of December 31, 2008. All the members of our door-to-door sales team go through extensive training by us prior to commencing their work. We target the door-to-door subscribers based on market surveys that we regularly conduct and database analysis. All information derived from our market surveys is uploaded into a database. Once a potential customer is identified, we contact the potential customer and schedule a meeting with a member of our door-to-door sales team.

Account managers. Our direct sales force for our business customers maintains regular, personal contact with our large accounts, focusing on sales, customer

retention and tailor-made solutions for the specific needs of such customers, including advanced data services.

Marketing

Our marketing activities are based on the principle of focusing on subscribers' characteristics and needs and then adapting the service packages and prices that we offer to subscribers based on these characteristics and needs.

From surveys that we conduct from time to time, we learn that subscribers base their choice of cellular provider primarily on the following parameters: general brand perception; perceived price of services and handsets; level of customer service; and selection of handsets and their compatibility with their needs. Our marketing activities take into consideration these parameters and we invest efforts to preserve our subscriber base, enhance usage and attract new subscribers. We utilize a system that allows the management of complex one-to-one marketing campaigns, such as tailoring our marketing activities to customers based on their unique profile of needs and usage patterns, thus improving customer loyalty and increasing ARPU.

Our marketing strategy is focused on our role as facilitators of interpersonal communication and our ability to foster relationships between people, as well as a general spirit of youthful exuberance and the strong local roots of our brand. We launched a highly successful branding campaign at the end of 2004 and continue to follow this marketing strategy. Our marketing strategy also emphasizes our leadership, dynamic nature and personal touch, the quality of our network and services and our innovation.

In recruiting new subscribers, we are focused on current and potential high value customers, such as students, and subscribers who influence family and business purchasing decisions, such as teenagers and senior executives. We leverage our extensive interactions with our customers, which we estimate to be approximately 700,000 unique customer applications per month, to provide the requested services and also to cross- and up-sell products and services according to customer needs and usage trends, mostly by using advanced CRM models, to increase customer satisfaction, loyalty and revenues. In addition, we offer loyalty rewards, such as video subscriptions and tickets to concerts, performances and movies, from time to time.

We regularly advertise in all forms of media, in promotional campaigns and in the sponsorship of major entertainment events. For example, through our music-related "Cellcom Volume" marketing initiative, we promote the sale of music-related services through our cellular music portal, we promote both Israeli music and local musicians as well as support youth music centers aimed at enabling underprivileged youth to discover and develop their musical talents. See also "Giving Back to the Community and Protecting the Environment" below. Our marketing and branding campaign has been very successful and highly acclaimed among the Israeli public, and our "Cellcom Volume" initiative in particular has provided us with a high visibility association with music content services.

We believe that our strong brand recognition gives us the high level of market exposure required to help us achieve our business objectives.

Customer Care

Our customer service unit is our main channel for preserving the long-term relationship with our subscribers. We focus on customer retention through the provision of quality service and customer care. In order to achieve this goal, we systematically monitor and analyze our subscribers' preferences, characteristics and trends by developing and analyzing sophisticated databases. We then adopt services that are aimed to respond to subscribers' needs and preferences. In addition, subscribers are encouraged to subscribe to additional value-added services, such as cellular Internet and content services, in order to enhance customer satisfaction and increase ARPU. We continually strive to improve our service to our customers. Our customer care representatives receive extensive training before they begin providing service and thereafter regularly undergo training and review of their performance. We continuously invest in improving our training process. We provide our customer care representatives with a continually updated database, thus shortening the interaction time required to satisfy the customer's needs and preventing human errors. We constantly review our performance by conducting surveys among our subscribers in order to ensure their satisfaction with our services and to improve them as necessary.

In order to better respond to subscribers' needs in the most efficient manner, our customer support and service network offers several channels for our subscribers:

Call centers. In order to provide quick and efficient responses to the different needs of our various subscribers, our call-center services are divided into several sub-centers: general services; finance; network; international roaming; and data transfer. The call center services are provided in four languages: Hebrew, Arabic, English and Russian. We regularly monitor the performance of our call centers. We currently operate call centers in seven locations throughout Israel, two of which are outsourced. On average, we respond to 1 million calls every month. During peak hours our call centers have the capability to respond to 800 customer calls simultaneously.

Walk-in centers. As of December 31, 2008, we operate approximately 30 service and sales centers, covering almost all the populated areas of Israel. These centers provide a walk-in contact channel and offer the entire spectrum of services that we provide to our subscribers and potential subscribers, including handsets and accessories, sales upgrades, maintenance and other services, such as finance, calling-plan changes and subscriptions to new services. These stores are mostly located in central locations, such as popular shopping malls. Our walk-in centers also provide our subscribers with repair services, performed by highly skilled technicians. In 2008 we implemented several efficiency measures to our repair services process, aimed at improving its quality and reducing its costs, primarily given the higher costs of repairing 3G handsets which are more complex and expensive. Consequently, as of December 31, 2008, approximately half of our centers were converted to offer a 48 hours repair service, while our other centers offer onsite express repair services where the subscriber deposits a handset with our repair lab and receives the repaired handset, on average, within one hour. We are reviewing the results of these measures and may convert other centers to offer a 48 hours repair service during 2009. Our subscribers may borrow a substitute handset, free of charge, in order to continue to enjoy our cellular phone services as their handset is being repaired.

Self-services. We provide our subscribers and potential subscribers with various self-service channels, such as interactive voice response, or IVR, web-based services and

service using SMS. These channels provide general and specific information, including calling plans, account balance, billing-related information and roaming tariffs. They also provide subscribers information regarding trouble shooting and handset-operation, and enable subscribers to activate and deactivate services and to download content. Furthermore, in February 2009 we launched our new and improved website, which includes four "zones": Shop - a virtual shop allowing easy purchase of various products and services; Offers - specials offers, discounts, loyalty rewords etc.; Service - information on our various services, products, the monthly statement etc.; Content - our content services, including music, games, video clips etc. Our new website further features three additional designated websites: a site in Arabic, a site in Russian and a site for our business customers.

Churn Lab. In 2006, we introduced an innovative "churn lab," aimed at reducing churn. The churn lab is part of our call center operations. Based on various factors and analytical tools, we identify and analyze high-quality subscribers whom we consider to be at a high risk of churn. Then, in order to retain them, we preemptively approach these subscribers, by phone or face to face – at their home or place of business, with specially trained customer care representatives and offer them solutions previously successfully tested on a sample group of subscribers with similar characteristics, such as enhanced services at attractive prices and handset upgrades.

Our business sales force and back office personnel also provide customer care to our business customers. We offer our business customers repair services by a dispatch service collecting and returning the repaired handset within 48 hours, during which time, the customer is provided with a substitute handset, free of charge.

All of our service channels are monitored and analyzed regularly in order to assure the quality of our services and to identify areas where we can improve.

Be'eri Printers provides our printing supplies and invoices as well as the distribution, packaging and delivery of invoices and other mail to the postal service distribution centers. We entered into an agreement with Be'eri Printers - Limited Partnership and with Be'eri Technologies (1977) Ltd., or together Be'eri, for printing services in August 2003. Under the terms of the agreement, we committed to purchase from Be'eri a minimum monthly quantity of production and distribution services which may be reduced if we modify our printed invoice delivery policy. The agreement is valid until December 2010.

Competition

There is substantial competition in all aspects of the cellular communications market in Israel and we expect this to continue in the future due to the highly penetrated state of our market. We compete for market and revenue share with three other cellular communication operators: Partner, which is majority owned by Hutchison Whampoa; Pelephone, which is a wholly-owned subsidiary of the incumbent landline provider, Bezeq; and MIRS, which is a wholly-owned subsidiary of Motorola.

Our estimated market share based on number of subscribers was approximately 34.7% as of December 31, 2008. To our knowledge, the market shares at such time of Partner, Pelephone (assuming no material changes in the fourth quarter, since Pelephone did not yet publish its year-end figures) and MIRS were estimated to be approximately 31.6%, 29.7%

and 4.0%, respectively. Since MIRS does not publish data on its number of subscribers, estimates of its market share are based on surveys.

The competition in our market has further increased as a result of the implementation of number portability in December 2007, as it has removed a deterrent to switching providers. See also "Government Regulations – Number Portability" below. Competition may intensify even further upon the recent launch of Pelephone's UMTS/HSPA network and subject to the design and grant of an appropriate form of license by the regulator, MVNOs may enter into agreements with cellular providers and enter into the market. We may also face competition in the future from other providers of voice and data communications, including service providers that may offer WiMAX, WiFi and/or VOB wireless high speed data access.

We believe that the principal competitive factors include general brand perception, perceived price, customer service and handset selection. In addition, content and other value-added services constitute a potential growth engine for increasing revenues from subscribers and are also an important factor in selecting a cellular provider.

In response to the enhanced competition in our market, we have implemented various steps and strategies, including:

- marketing and branding campaigns aimed at enhancing market leadership, perceived value, brand recognition and loyalty among our existing and potential subscriber base;
- investing resources in improving customer service and retention, as well as supporting information technology systems;
- introducing innovative value-added services and identifying popular niches among various subscriber groups;
- investing in improving our network technology to ensure our ability to offer quality services and advanced services, both cellular and landline services;
- using innovative sales campaigns for attracting new subscribers by offering subsidies on handsets to new subscribers such as "1+1" (buy one, get one free) campaigns; and
- offering attractive calling plans to subscribers, adapted to their needs and preferences (for instance, we were the first cellular operator to offer calling plans charged by one-second airtime charging unit, as opposed to the then customary 12-second airtime charging unit.

Our ability to compete successfully will depend, in part, on our ability to anticipate and respond to trends and events affecting the industry, including: the introduction of new services and technologies, changes in consumer preferences, demographic trends, economic conditions, pricing strategies of competitors and changes to the legal and regulatory environment. We believe that we are well positioned for the competition in our market.

In August 2008, the Ministry of Communications adopted the majority of the recommendations published in March 2008 by a public committee appointed by the Ministry of Communications to review various issues in the Israeli communications market. The recommendations adopted include recommendations: to accelerate the procedures necessary

to allow the entry of MVNOs and additional infrastructure based operators to the cellular market; to publish a WiMAX frequencies tender for cellular use; to examine interconnect fees and further revise them accordingly, during 2009; to negotiate a reduction of inbound and outbound roaming tariffs with the European Union and/or members of the European Union and/or countries frequently visited by Israelis; to regulate charges for mobile-originated international calls; and to prohibit a linkage between a cellular services transaction and a handset purchase transaction. Another recommendation concerns the unbundling of Bezeq's network to be followed by alleviating some of the restrictions with respect to offering integrated packages of services currently imposed on Bezeq and its subsidiaries. Also, in August 2008, the Israeli Government adopted resolutions in line with the recommendations concerning MVNO, roaming tariffs and interconnect fees, as well as a resolution directing the Ministry of Communication to examine ways to encourage the entry into the cellular market of additional operators, including by providing certain relieves and incentives. The implementation of the recommendations adopted is expected to further increase competition in the market and could adversely influence our results of operations.

Intellectual Property

We are a member of the GSM Association, together with other worldwide operators that use GSM technology. As a member of the association, we are entitled to use its intellectual property rights, including the GSM logo and trademark.

We have registered approximately 100 trademarks and several trade names, the most important of which are “Cellcom”, “Talkman” and “Cellcom Volume”.

Government Regulations

The following is a description of various regulatory matters which are material to our operations, including certain future legislative initiatives which are in the process of being enacted. There is no certainty that the future legislation described here will be enacted or whether it will be subject to further change before its final enactment.

General

A significant part of our operations is regulated by the Israeli Communications Law, 1982, the regulations promulgated under the Communications Law and the provisions of our licenses, which were granted by the Israeli Ministry of Communications pursuant to the Communications Law. We are required by law to have a general license in order to provide cellular communications services in Israel. The Ministry of Communications has broad supervisory powers in connection with the operations of license holders and is authorized, among other things, to impose financial penalties for violations of the Communications Law, the regulations and our licenses.

Our Principal License

The establishment and operation of a cellular communications network requires a license pursuant to the Communications Law for telecommunications operations and services and pursuant to the Israeli Wireless Telegraph Ordinance (New Version), 1972, for the allocation of spectrum and installation and operation of a cellular network.

We provide our cellular services under a non-exclusive general license granted to us by the Ministry of Communications in June 1994, which requires us to provide cellular

services in the State of Israel to anyone wishing to subscribe. The license expires on January 31, 2022, but may be extended by the Ministry of Communications for successive periods of six years, provided that we have complied with the license and applicable law, have continuously invested in the improvement of our service and network and have demonstrated the ability to continue to do so in the future. The main provisions of the license are as follows:

- The license may be modified, cancelled, conditioned or restricted by the Ministry of Communications in certain instances, including: if required to ensure the level of services we provide; if a breach of a material term of the license occurs; if DIC (or a transferee or transferees, if approved by the Ministry of Communications), in its capacity as our founding shareholder, holds, directly or indirectly, less than 26% of our means of control; if our founding shareholders who are Israeli citizens and residents hold, directly or indirectly, less than 20% of our means of control (DIC, as founding shareholder, has undertaken to comply with this condition); if at least 20% of our directors are not appointed by Israeli citizens and residents from among our founding shareholders or if less than a majority of our directors are Israeli citizens and residents; if any of our managers or directors is convicted of a crime of moral turpitude and continues to serve; if we commit an act or omission that adversely affects or limits competition in the cellular communications market; or if we and our 10% or greater shareholders fail to maintain combined shareholders' equity of at least $200 million. For the purpose of the license, "means of control" is defined as voting rights, the right to appoint a director or general manager, the right to participate in distributions, or the right to participate in distributions upon liquidation;

- It is prohibited to acquire (alone or together with relatives or with other parties who collaborate on a regular basis) or transfer our shares, directly or indirectly (including a transfer by way of foreclosing on a pledge), in one transaction or a series of transactions, if such acquisition or transfer will result in a holding or transfer of 10% or more of any of our means of control, or to transfer any of our means of control if as a result of such transfer, control over our company will be transferred from one party to another, without the prior approval of the Ministry of Communications. For the purpose of the license, "control" is defined as the direct or indirect ability to direct our operations whether this ability arises from our articles of association, from written or oral agreement or from holding any means of control or otherwise, other than from holding the position of director or officer;

- It is prohibited for any of our office holders or anyone holding more than 5% of our means of control, to hold, directly or indirectly, more than 5% of the means of control in Bezeq or another cellular operator in Israel, or, for any of the foregoing to serve as an office holder of one of our competitors, subject to certain exceptions requiring the prior approval of the Ministry of Communications;

- We, our office holders or interested parties may not be parties to any arrangement whatsoever with Bezeq or another cellular operator that is intended or is likely to restrict or harm competition in the field of cellular services, cellular handsets or other cellular services. For the purpose of the

license, an "interested party" is defined as a 5% or greater holder of any means of control;

- We are subject to the guidelines of Israel's General Security Services, which may include requirements that certain office holders and holders of certain other positions be Israeli citizens and residents with security clearance. For example, our Board of Directors is required to appoint a committee to deal with matters concerning state security. Only directors who have the requisite security clearance by Israel's General Security Services may be members of this committee. In addition, the Minister of Communications is entitled under our license to appoint a state employee with security clearance to act as an observer in all meetings of our Board of Directors and its committees;

- During the entire period of operation under the license, we are required to have agreements with a manufacturer of cellular network equipment which must include, among other things, a know-how agreement and an agreement guaranteeing the supply of spare parts for our network equipment for a period of at least seven years;

- We are required to interconnect our network to other public telecommunications networks in Israel, on equal terms and without discrimination, in order to enable subscribers of all operators to communicate with one another;

- We may not give preference in providing infrastructure services to a license holder that is an affiliated company over other license holders, whether in payment for services, conditions or availability of services or in any other manner, other than in specific circumstances and subject to the approval of the Ministry of Communications;

- The license sets forth the general types of payments that we may collect from our subscribers, the general mechanisms for setting tariffs, limitations on raising tariffs (for non-business subscribers under obligation to purchase our services for a predefined period, during such period), and on the duration of a non-business subscriber's obligation to purchase our services, the reports that we must submit to the Ministry of Communications and the obligation to provide notice to our customers and the Ministry of Communications prior to changing tariffs. The Ministry of Communications is authorized to intervene in setting tariffs in certain instances;

- The license requires us to maintain a minimum standard of customer service, including, among other things, establishing call centers and service centers, maintaining a certain service level of our network, collecting payments pursuant to a certain procedure, protecting the privacy of subscribers and obtaining an explicit request from our subscribers to provide services, whether by us or by third parties, as a precondition to providing and charging for such services;

- The license or any part thereof may not be transferred, pledged or encumbered without the prior approval of the Ministry of Communications. The license also sets forth restrictions on the sale, lease or pledge of any assets used for implementing the license;

- We are required to obtain insurance coverage for our cellular activities. In addition, the license imposes statutory liability for any loss or damage caused to a third party as a result of establishing, sustaining, maintaining or operating our cellular network. We have further undertaken to indemnify the State of Israel for any monetary obligation imposed on the State of Israel in the event of such loss or damage. For the purpose of guaranteeing our obligations under the license, we have deposited a bank guarantee in the amount of $10 million with the Ministry of Communications, which may be forfeited in the event that we violate the terms of our license.

In 2005, our license was amended to regulate charging for SMS messages sent outside our network, which, under a certain interpretation of the amendment, may lead to claims of our not being in compliance with our license. To date, we have fulfilled the license requirements with respect to SMS messages sent to subscribers of one other cellular operator. However, due to technological difficulties which have not yet been resolved, we may face claims, if such interpretation of the amendment prevails, of not having implemented the amendment with respect to SMS messages sent to subscribers of two other operators. We had notified the Ministry of Communications of our technological inability to fully implement the amendment, in light of this interpretation. The Ministry of Communications had proposed an amendment to our license to resolve this problem, which we believe is unsatisfactory.

In the event that we violate the terms of our license, we may be subject to substantial penalties, including monetary sanctions. In 2007, the Communications Law was amended to include an increase in the financial sanctions that may be imposed on us by the Ministry of Communications for a breach of our licenses. Following the increase, the maximum amount per violation that may be imposed is NIS 1.4 million plus 0.25% of our annual revenue for the preceding year. An additional sanction amounting to 2% of the original sanction may be imposed for each day that the violation continues. In addition, the Ministry of Communications may determine certain service-related terms in our license as "service terms"; the maximum monetary sanctions per violation of a "service term" shall be double the amount of any other monetary sanction set in our license for such a violation per each period of 30 days or portion thereof during which the violation continues.

Other Licenses

Special general license for the provision of landline communication services

In April 2006, Cellcom Fixed Line Communications L.P., or Cellcom Fixed Line, a limited partnership wholly-owned by us, was granted a non-exclusive special general license for the provision of landline telephone communication services. The license expires in 2026 but may be extended by the Ministry of Communications for successive periods of 10 years. We began providing landline telephone services in July 2006, concentrating on offering landline telephone services to selected businesses. The partnership deposited a bank guarantee in the amount of NIS 10 million with the Ministry of Communications upon receiving the license. The provisions of our general license described above, including as to its extension, generally apply to this license, subject to certain modifications. It should be noted that in addition to any 10% share transfer requiring the prior approval of the Ministry of Communications as noted in our general license, the special general license additionally requires prior approval for acquiring the ability to effect a significant influence over us. In this context, holding 25% of our means of control is presumed to confer significant influence.

In December 2007 this license was amended to include the provision of voice services over the internet broadband infrastructure of other operators (VOB), as well. This amendment will enable us to penetrate the residential sector as well, should we choose to do so (we are reviewing this possibility).

Data and transmission license

In 2000, we were granted a non-exclusive special license for the provision of local data communication services and high-speed transmission services, which is effective until December 2012. Following the grant of a special general license for the provision of landline telephone communication services to Cellcom Fixed Line, which also includes the services previously provided through our data and transmission license, our data and transmission license was amended in June 2006 to permit only Cellcom Fixed Line to be our customer of these services (and these services are now being provided to our customers through Cellcom Fixed Line). The provisions of our general and general specific licenses described above, including as to its extension, generally apply to this license, subject to certain modifications.

Cellular services in Judea and Samaria

The Israeli Civil Administration in Judea and Samaria granted us a non-exclusive license for the provision of cellular services to the Israeli-populated areas in Judea and Samaria. This license is effective until December 31, 2009. The provisions of the general license described above, including as to its extension, generally apply to this license, subject to certain modifications.

Internet Service Provider license

In December 2001, we were granted a non-exclusive special internet services provider, or ISP license for the provision of internet access services. The license expires in 2013 but may be extended by the Ministry of Communications for successive periods of five years. The provisions regarding the transfer of our shares which are included in the special general license for the provision of landline communication services described above, generally apply to this license.

Tariff Supervision

Under the Israeli Communications Regulations (Telecommunications and Broadcasting) (Payment for Interconnecting), 2000, interconnect tariffs among landline operators, international call operators and cellular operators are subject to regulation and have been gradually decreased, as follows:

- The maximum interconnect tariff payable by a landline operator or a cellular operator for the completion of a call on another cellular network was decreased as of March 1, 2006, to NIS 0.29 per minute; as of March 1, 2007, to NIS 0.26 per minute; and as of March 1, 2008 to NIS 0.22 per minute.

- The maximum interconnect tariff payable by an international call operator for the completion of a call on a cellular network is NIS 0.25 per minute. This tariff was reduced to NIS 0.22 per minute as of March 1, 2008.

- The maximum interconnect tariff payable by a cellular operator for sending an SMS message to another cellular network was decreased as of March 2006, to NIS 0.025 per message.

These above tariffs do not include value added tax and are updated in March of each year based on the change in the Israeli CPI published each January against the Israeli CPI published in January 2005 in accordance with the regulations.

In addition, following the Israeli Government resolutions adopted in August 2008, the Ministry of Communications is expected to examine interconnect fees and further revise them accordingly, during 2009.

The reduction of interconnect tariffs by the Ministry of Communications led to a decrease in our revenues and any additional reduction, if decided upon, is expected to have an additional adverse effect on our results of operations.

Under these regulations and our license, commencing January 1, 2009, our basic airtime charging units, including for interconnect purposes, was changed from twelve-second units to one-second units. Our general license also prevents us from offering our subscribers calling plans using airtime charging units other than the basic airtime charging unit.

In October 2008, the Ministry of Communications amended our license in a manner that obligates us, commencing December 31, 2008, to set a fixed tariff for non-business subscribers under obligation to purchase our services for a predefined period, during that period, thus limiting our ability to raise tariffs to such subscribers.

In 2008, the Consumer Protection Law was amended in a manner that obligates us, commencing January 2009, to terminate certain services (excluding voice services) we provide to our subscribers during a predefined period, at the end of that period, unless the price for the services to be provided after the end of the predefined period has been set in advance or we have received the subscriber's affirmative consent to continue and provide these services.

In June 2007, the European Union adopted a resolution to reduce and regulate roaming tariffs. In August 2008, the Israeli Government adopted a resolution to negotiate a reduction of inbound and outbound roaming tariffs with the European Union and/or members of the European Union or countries frequently visited by Israelis. In November 2008 the Ministry of Communications issued a supplemental request for information, following its request in 2007, requesting us to provide information in relation to our roaming services. The requests for information were made in order to evaluate the need for intervention in roaming tariffs. If the Ministry of Communications decides to intervene in the pricing of roaming services, this could reduce the revenues we derive from our roaming services.

Following previous steps taken by the Ministry of Communications to promote additional end-user equipment sales-channels, the Ministry is also examining the possibility of limiting our ability to link between handset purchase and airtime credit granted to the purchasing subscriber. See "Item 4. Information on the Company – B. Business Overview – Competition". If such restrictions are imposed, this may impair our ability to offer advanced handsets that include value-added features and services to our subscribers with airtime rebates which may result in lower revenues from value-added services and selling handsets.

Permits for Cell Site Construction

General

In order to provide and improve network coverage to our subscribers, we depend on cell sites located throughout Israel. The regulation of cell site construction and operation are primarily set forth in the National Zoning Plan 36 for Communications, which was published in May 2002. The construction of radio access devices, which are cell sites of smaller dimensions, is further regulated in the Communications Law.

The construction and operation of cell sites are subject to permits from various government entities and related bodies, including:

- building permits from the local planning and building committee or the local licensing authority (if no exemption is available);
- approvals for construction and operation from the commissioner of environmental radiation of the Ministry of Environmental Protection;
- permits from the Civil Aviation Authority (in most cases);
- permits from the Israel Defense Forces (in certain cases); and
- other specific permits necessary where applicable, such as for cell sites on water towers or agricultural land.

National Zoning Plan 36

National Zoning Plan 36 includes guidelines for constructing cell sites in order to provide cellular broadcasting and reception communications coverage throughout Israel, while preventing radiation hazards and minimizing damage to the environment and landscape. The purpose of these guidelines is to simplify and streamline the process of cell site construction by creating a uniform framework for handling building permits.

National Zoning Plan 36 sets forth the considerations that the planning and building authorities should take into account when issuing building permits for cell sites. These considerations include the satisfaction of safety standards meant to protect the public's health from non-ionizing radiation emitting from cell sites, minimizing damage to the landscape and examining the effects of cell sites on their physical surroundings. National Zoning Plan 36 also determines instances in which building and planning committees are obligated to inform the public of requests for building permits prior to their issuance, so that they may submit objections to the construction of a site in accordance with the provisions of the Planning and Building Law.

See "Item 4. Information on the Company – B. Business Overview - Government Regulations - Site licensing" below for arguments against the application of National Zoning Plan 36 to certain cell sites.

National Zoning Plan 36 is in the process of being revised. Current proposed changes would impose additional restrictions and/or requirements on the construction and operation of cell sites and could, if adopted, harm our ability to construct new cell sites, make the process of obtaining building permits for the construction and operation of cell sites more cumbersome and costly and may delay the future deployment of our network.

Site licensing

We have experienced difficulties in obtaining some of the permits and consents required for the construction of cell sites, especially from local planning and building authorities. The construction of a cell site without a building permit (or applicable exemption) constitutes a violation of the Planning and Building Law. Violations of the Planning and Building Law are criminal in nature. The Planning and Building Law contains enforcement provisions to ensure the removal of unlawful sites. There have been instances in which we received demolition orders or in which we and certain of our directors, officers and employees faced criminal charges in connection with cell sites constructed without a permit. In most of these cases, we were successful in preventing or delaying the demolition of these sites, through arrangements with the local municipalities or planning and building authorities for obtaining the permit, or in other cases, by relocating to alternate sites. As of December 31, 2008, we were subject to 17 criminal and administrative legal proceedings alleging that some of our cell sites were built without a building permit. As of the same date, a small portion of our cell sites operated without building permits or applicable exemptions Although we are in the process of seeking to obtain building permits or modify our cell sites in order to satisfy applicable exemptions for a portion of these sites, we may not be able to obtain or modify them and in several instances we may be required to relocate these sites to alternative locations or to demolish them without any suitable alternative. In addition, we operate other cell sites in a manner which is not fully compatible with the building permits issued for them, although they are covered by permits from the Ministry of Environmental Protection in respect of their radiation level. In some cases we will be required to relocate these cell sites to alternative locations, to reduce capacity coverage or to demolish them without any suitable alternative.

Based on advice received from our legal advisors and consistent with most Court rulings on the matter, we have not requested building permits under the Planning and Building Law for rooftop radio access devices. In May 2008, the Israeli Attorney General opined that the exemption does apply to cellular radio access devices but recommended that an inter-ministry committee be established to examine the appropriateness of future application of the exemption to cellular devices given the changed circumstances since the enactment of the exemption. The Attorney General further opined that the examination should be completed by the end of March 2009 and that failure to conclude the examination within a reasonable period may affect the legal assessment of the exemption as being reasonable. An inter-ministry committee was established but we understand that it has not yet provided its conclusions. However, notwithstanding the Attorney General's opinion, in May 2008 the District Court of Tel-Aviv-Jaffa, in its capacity as court of appeals, ruled that our and other cellular operators' devices do not meet the exemption's requirements and therefore the exemption may not be relied upon by us and other cellular operators. We and other cellular operators appealed against this ruling to the Supreme Court. The State notified the Supreme Court it concurs with our and another cellular operator's appeals against the District Court ruling. The State requested that a third operator's appeal be returned to the District Court for further deliberation on specific questions relating to the validity of the exemption in that case. Furthermore, in July 2008, a petition seeking to annul the Attorney General's opinion and apply the District Court ruling was filed with the Supreme Court by the Union of Local Authorities in Israel and certain local planning and building authorities. Both our appeal and the local authorities' petition are awaiting determination by the Supreme Court. Additionally, in November 2008, the District Court of Central Region, in its capacity as court of appeals, ruled that the exemption does not apply to radio access devices, if the rooftop on

which those devices are located is at the same level as a place of residence or other building that is regularly frequented by people. Other appeals relating to the exemption are still under consideration in the District Court and other similar challenges, as well as other claims asserting that those cell sites and other facilities do not meet other legal requirements continue. Further, in July 2008, an amendment to the Israeli Communication Law proposing to annul the exemption passed the preliminary phase of enactment at the Israeli parliament.

Annulment of the exemption or limitation of its scope could adversely affect our network and network build-out, particularly given the objection of some local planning and building authorities to grant due permits where required, could have a negative impact on our ability to obtain environmental permits for these sites, could negatively affect the extent, quality, capacity and coverage of our network and our ability to continue to market our products and services effectively. This may have a material adverse effect on our results of operations and financial condition.

Radio access devices do receive the required permits from the Ministry of Environmental Protection. Since October 2007, the Commissioner of Environmental Radiation at the Ministry of Environmental Protection took the position that he will not grant and/or renew operating permits to radio access devices, where the local planning and building committee's engineer objected to the Company's reliance upon this exemption for radio access devices. We believe that in taking this position, the Commissioner is acting beyond his powers

For reasons not related to radiation hazards, we have not received environmental permits for a small portion of our cell sites, primarily due to building and planning issues, such as objections by local planning and building committee's engineers to our reliance on the exemption from obtaining building permits for radio access devices.

Operating a cell site or a facility without the requisite permits could subject us and our officers and directors to criminal, administrative and civil liability. Should any of our officers or directors be found guilty of an offence, although this has not occurred to date, they may face monetary penalties and a term of imprisonment. In addition, our sites may be the subject of demolition orders and we may be required to relocate cell sites to less favorable locations or stop operation of cell sites. This could negatively affect the extent, quality and capacity of our network coverage and adversely affect our results of operations.

Several local planning and building authorities argue that Israeli cellular operators may not receive building permits in reliance on the current National Zoning Plan 36 ("the Plan"), for cell sites operating in frequencies not specifically detailed in the frequencies charts attached to the Plan. In a number of cases, these authorities have refused to provide a building permit for such new cell sites, arguing that the Plan does not apply to such cell sites and that building permits for such cell sites should be sought through other processes (which are longer and cumbersome), such as an application for an extraordinary usage or under existing local specific zoning plans. Since June 2002, following the approval of the Plan, building permits for the Company's cell sites (where required) have been issued in reliance on the Plan. The current proposed draft amendment to the Plan covers all new cell sites requiring a building permit, independently of the frequencies in which they operate. Most of our cell sites and many cell sites operated by other operators, operate in frequencies not specifically detailed in the Plan. We believe that the Plan applies to all cell sites, whether or not they operate in specific frequencies, consistent with the practice developed since 2002 and intend

to defend our position vigorously. However, we are currently unable to assess the chances of success of the above argument.

If this approach continues, it would have a negative impact on our ability to deploy additional cell sites (until such time as the Plan is amended to include all cellular cell sites), which could negatively affect the extent, quality and capacity of our network coverage and our ability to continue to market our products and services effectively.

In addition to cell sites, we provide repeaters (also known as bi-directional amplifiers) to subscribers seeking a solution to weak signal reception within specific indoor locations. Based on advice received from our legal advisors, we have not requested building permits under the Planning and Building Law for outdoor rooftop repeaters, which are a small part of the repeaters that have been installed. It is unclear whether other types of repeaters require building permits. Some repeaters require specific permits and others require a general permit from the Ministry of Environmental Protection in respect of their radiation level, and we are required to ensure that each repeater functions within the parameters of the applicable general permit. The Israeli courts have not yet addressed the question of whether building permits are required for the installation of repeaters. Should it be established that the installation of repeaters (including those already installed) requires a building permit, we will perform cost-benefit analyses to determine whether to apply for permits for existing repeaters or to remove them and whether to apply for permits for new repeaters.

In addition, we construct and operate microwave sites as part of our transmission network. The various types of microwave sites receive permits from the Ministry of Environmental Protection in respect of their radiation level. Based on advice received from our legal advisors, we believe that building permits are not required for the installation of these microwave facilities on rooftops. If courts determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability to obtain environmental permits for these sites and to deploy additional microwave sites and could hinder the extent, quality and capacity of our transmission network coverage and our ability to continue to market our landline services effectively.

Indemnification obligations

In January 2006, the Planning and Building Law was amended to provide that as a condition for issuing a building permit for a cell site, local building and planning committees shall require letters of indemnification from cellular operators indemnifying the committees for possible depreciation claims under Section 197 of the Planning and Building Law, in accordance with the directives of the National Planning Council. Section 197 establishes that a property owner whose property value has been depreciated as a result of the approval of a building plan that applies to his property or neighboring properties may be entitled to compensation from the local building and planning committee. In February 2007, the Israeli Minister of Interior Affairs extended the limitation period within which depreciation claims may be brought under the Planning and Building Law from three years from approval of the building plan to the later of one year from receiving a building permit under National Zoning Plan 36 for a cell site and six months from the construction of a cell site. The Minister retains the general authority to extend such period further. This extension of the limitation period increases our potential exposure to depreciation claims.

The National Planning Council's guidelines issued in January 2006 provide for an undertaking for full indemnification of the planning and building committees by the cellular

companies, in the form published by the council. The form allows the indemnifying party to control the defense of the claim. These guidelines will remain in effect until replaced by an amendment to National Zoning Plan 36.

Since January 2006, we have provided approximately 230 indemnification letters in order to receive building permits. In addition, prior to January 2006, we provided three undertakings to provide an indemnification letter to local planning and building committees. Local planning and building committees have sought to join cellular operators, including us, as defendants in depreciation claims made against them even though indemnification letters were not provided. We were joined as defendants in a small number of cases. It is possible that the joining of cellular operators as defendants to similar claims will continue. We expect that we will be required to continue to provide indemnification letters as the process of deploying our cell sites continues. As a result of the requirement to provide indemnification letters, we may decide to construct new cell sites in alternative, less suitable locations, to reduce capacity coverage or not to construct them at all, should we determine that the risks associated with providing such indemnification letters outweigh the benefits derived from constructing such cell sites, which could impair the quality of our service in the affected areas.

Construction and operating permits from the commissioner of environmental radiation

Under the Non Ionizing Radiation Law (and previously under the Israeli Pharmacists Regulations (Radioactive Elements and their Products), 1980), it is prohibited to construct cell sites without a permit from the Ministry of Environmental Protection. The Commissioner of Environmental Radiation is authorized to issue two types of permits: construction permits, for cell site construction; and operating permits, for cell site operation.

These permits contain various conditions that regulate the construction or operating of cell sites, as the case may be. Our cell sites routinely receive both construction and operating permits from the Commissioner within the applicable time frames. Some repeaters require specific permits and others require general permits from the Commissioner in respect of their radiation level, and we are required to ensure that each repeater functions within the parameters of its applicable general permit.

The Pharmacists Regulations provide that each of the two kinds of permits is valid for one year from the date of its issuance, or for a shorter period of time as determined by the Commissioner. We submitted annual reports regarding radiation surveys conducted on our cell sites, which, according to the Commissioner, automatically renews the permits for additional one-year terms. Under the Pharmacists Regulations, the Commissioner may issue orders to take appropriate action should he believe a cell site or other facility poses a threat to the health or welfare of individuals, the public or the environment. Failure to comply with the Pharmacists Regulations, the terms of a permit or the instructions of the Commissioner can lead to sanctions, including the revocation or suspension of the permit.

Pursuant to the Non-Ionizing Radiation Law, which has become effective, for the most part, on January 1, 2007, the construction and operation of cell sites and other facilities requires the prior approval of the Ministry of Environmental Protection. The validity of a construction permit will be for a period not exceeding three months, unless otherwise extended by the Commissioner, and the validity of an operating permit will be for a period of five years and we are required to submit to the Commissioner annual reports regarding radiation surveys conducted on our cell sites. Permits that were issued under the Pharmacists

Regulations were deemed, for the remainder of their term, as permits issued under the Non-Ionizing Radiation Law. An applicant must first receive a construction permit from the Commissioner and only then may the applicant receive a building permit from the planning and building committee. In order to receive an operating permit from the Commissioner, certain conditions must be met, such as presenting a building permit or an exemption. See "Site licensing" above for additional details in regards to obtaining a building permit and/or relying on an exemption.

The Non-Ionizing Radiation Law also regulates permitted exposure levels, documentation and reporting requirements, and provisions for supervision of cell site and other facility operation. The Non-Ionizing Radiation Law grants the Commissioner authority to issue eviction orders if a cell site or other facility operates in conflict with its permit, and it imposes criminal sanctions on a company and its directors and officers for violations of the law. Failure to comply with the Non-Ionizing Radiation Law or the terms of a permit can lead to revocation or suspension of the permit, as well as to withholding the grant of permits to additional cell sites of that operator.

In July 2008, a petition was filed with the Supreme Court by certain environmental organizations against the Minister of Environmental Protection, the Minister of Communications and the cellular companies, including us, seeks remedies relating to the delayed enactment of the Non-Ionizing Radiation regulations, the last draft of which included additional restrictions in relation to the operation of cell sites and other facilities. In December 2008, the Minister of Environmental Protection signed the Non-Ionizing Radiation Regulations, which do not include the section setting the aforesaid restrictions (including maximum exposure levels to non ionizing radiation). This petition awaits consideration by the Supreme Court. If restrictions similar to those included in the draft are subsequently adopted, they will, among other things, limit our ability to construct new sites and renew operating permits for a number of our existing sites, especially in residential areas.

Handsets

The Israeli Consumer Protection Regulations (Information Regarding Non-Ionizing Radiation from Cellular Telephones), 2002, regulate the maximum permitted level of non-ionizing radiation from end-user cellular equipment that emits non-ionizing radiation, which mainly refers to cellular phones, according to the European standard, for testing GSM devices, and the American standard, for testing TDMA devices. They also require cellular operators to attach an information leaflet to each equipment package that includes explanations regarding non-ionizing radiation, the maximum permitted level of non-ionizing radiation and the level of radiation of that specific model of equipment. The Radiation Regulations further require that such information also be displayed at points-of-sale, service centers and on the Internet sites of cellular operators.

Pursuant to procedures published by the Ministry of Communications at the end of 2005, end-user cellular equipment must comply with all relevant standards, including specific absorption rate, or SAR, level standards. We obtain type-approval from the Ministry of Communications for each handset model imported or sold by us. We include information published by the manufacturer regarding SAR levels with all of our handsets. SAR levels are a measurement of non-ionizing radiation that is emitted by a hand-held cellular telephone at its specific rate of absorption by living tissue. SAR tests are performed by handsets manufacturers on prototypes of each model handset, not for each and every handset. We do not perform independent SAR tests for equipment and rely for this purpose on information

provided by the manufacturers. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual SAR level of the equipment throughout their lifecycle, including in the case of equipment repair.

According to these procedures, in the event of equipment repair, SAR levels must be tested again and if they are not tested, the repairing entity is required to inform the customer that there may be changes in the SAR levels by affixing a label to the equipment. The Ministry of Communications has appointed a consultant to create guidelines in that regard. We and the other cellular operators have met with this consultant. In August 2006, the consultant submitted his findings to the Ministry of Communications, but the Ministry of Communications has not yet issued any guidelines. We have awaited the publication of these guidelines before implementing these requirements, but given the continued delay, are informing our customers that there may be changes in the SAR levels.

Obtaining a license for importing or trading in spare parts that are likely to affect the level of non-ionizing radiation requires receipt of compliance approvals from the manufacturer of the parts or from a laboratory authorized by the Ministry of Communications. To the best of our knowledge, to date no spare parts manufacturer has provided any cellular operator with such an approval and no laboratory has been authorized by the Ministry of Communications to issue such approvals.

Royalties

Under the Communications Law, the Israeli Communications Regulations (Royalties), 2001, and the terms of our general license from the Ministry of Communications, in 2007 we were required to pay the State of Israel royalties equal to 2.5% of our revenues generated from telecommunications services, less payments transferred to other license holders for interconnect fees or roaming services, sale of handsets and losses from bad debt. The rate of these royalties has decreased in recent years, from 4.5% in 2002, to 4% in 2003 to 3.5% in 2004 and 2005, to 3% in 2006, to 2.5% in 2007, to 2% in 2008, to 1.5% in 2009 and 1% in 2010 and thereafter. A public committee appointed by the Ministry of Communications to review various issues in the Israeli communications market published its recommendations in March 2008, including a recommendation that our obligation to pay royalties be annulled no later than 2012 (subject to Israeli corporate income tax reduction between 2008 and 2012).

Number Portability

As a result of an amendment to the Communications Law in March 2005, cellular and landline telephone operators were required to implement number portability by September 1, 2006. Despite efforts to introduce the requisite technology and coordinate the transition to number portability by September 1, 2006, no cellular or landline operator had implemented number portability by that date. Number Portability was implemented in Israel in December 2, 2007. Number portability permits cellular and landline network subscribers in Israel to change network operators (from one cellular operator to another and from one landline operator to another) without having to change their telephone numbers. Number portability has further increased the competition in our market, as it removed a deterrent to switching providers; churn rates have slightly increased following implementation of number portability, in line with other countries' experience following number portability implementation. We have maintained a positive net subscriber addition since the introduction of number portability and increased our subscribers market share. Number portability has become an integral part of our operation and accounts for less than 20% of our churn and for

approximately 10% of our new sale transactions, and the balance continues to be traditional sale transactions.

In May 2007, the Ministry of Communications notified its intention to impose monetary sanctions on telephony companies, including us, following non-implementation and operation of Number Portability, as of September 1, 2006. The intended monetary sanction applicable to us for the period commencing September 1, 2006 and ending November 30, 2007, is approximately NIS 6 million. We have submitted our objection to the aforementioned intended sanctions, to the Ministry of Communications.

Frequency Fees

Frequency allocations for our cellular services are governed by the Wireless Telegraph Ordinance. We pay frequency fees to the State of Israel in accordance with the Israeli Wireless Telegraph Regulations (Licenses, Certificates and Fees), 1987. We are currently in dispute with the Ministry of Communications over a sum of approximately NIS 71. million (including interest and CPI linkage differences) as of December 31, 2008, in GSM and UMTS frequency fees. For further information, see "Item 8 – Financial Information - Legal Proceedings." Furthermore, in December 2008, we returned the TDD spectrum allocated to us in 2001, to the Ministry of Communications, after not being able to use that spectrum since it was awarded to us, due to unavailability of supporting equipment.

Mobile Virtual Network Operator

A mobile virtual network operator, or MVNO, is a cellular operator that does not own its own spectrum and usually does not have its own radio network infrastructure. Instead, MVNOs have business arrangements with existing cellular operators to use their infrastructure and network for the MVNO's own customers. The introduction of the operation of MVNOs in the Israeli cellular market could increase competition, which may adversely affect our revenues.

In August 2007 and again in August 2008, the Israeli Government instructed the Ministry of Communications to take all measures necessary to allow any MVNO wishing to provide cellular services to the public using the network of a cellular operator to do so. The 2008 resolution instructs the Ministry of Communications to enact the necessary regulations by April 1, 2009. A proposed change to the Communication Law, in regards to MVNOs, was included in the Economic Policy bill for 2009, which awaits adoption by the Israeli Parliament. In the event that an MVNO and the cellular operator will not have reached an agreement as to the provision of service by way of MVNO within six months from the date the MVNO has approached the cellular operator, and if the Ministry of Communications together with the Ministry of Commerce determine that the failure to reach agreement is due to unreasonable conditions imposed by the cellular operator, the Ministries may use their authority to provide instructions. Such instructions may include intervening in the terms of the agreement, including by setting the price of the service. We understand that, both Smile and Hot informed the Ministry of Communications in mid 2008 of their intention to request an MVNO license.

In January 2009, the Ministry of Communications published a hearing for an MVNO draft license and regulations' general principles. The hearing deals with MVNO's implementation pursuant to an agreement between the cellular operator and the MVNO and sets, among others, the conditions for receiving an MVNO license, including a restriction on

a cellular operator to receive an MVNO license and the terms of the license. Licensing of an MVNO requires additional amendments to the Communication Law and regulations promulgated thereunder.

Emergency Situations

We may be subject to certain restrictions and instructions regarding our activities or provision of services during national emergencies or for reasons of national security or public welfare, including taking control of our cellular or land line networks. Further, the Prime Minister and the Ministry of Communications may determine that our services are deemed essential services, in which case we may be subject to further additional limitations on our business operations.

Reporting Requirements

We are subject to extensive reporting requirements. We are required to submit to the Ministry of Communications detailed annual reports with information concerning subscribers, revenues by service, the number of new subscribers and churn, annual financial statements and prior notice of tariff increases. In addition, under our license we may be required by the Ministry of Communications to file additional reports, such as reports on complaints, network problems and the development of the network.

Contributing to the Community and Protecting the Environment

We and our employees have been making a contribution to the community since our inception and are proud to be among the leaders of community responsibility.

In 2008 we continued to contribute to the community with a specific focus on our "Cellcom Volume" initiative. In addition to promoting Israeli music and artists and providing our customers with Israeli music through a variety of musical content, we have contributed to the creation of "Cellcom Volume" youth centers in various locations throughout Israel, in which we provide young people resources related to music, including music classes, facilities to bands and choirs for rehearsals and recording studios. During 2008 we opened additional three such centers in Israel, as we believe music is a language which connects and bonds different people together. As of December 31, 2008, we had nine "Volume Centers" and three “mini Volume Centers” active throughout the country. Another "Volume Center" is currently under construction. Our employees volunteer regularly in these centers as well as with other community projects.

In addition to our contribution to the build-up and strengthening of the community, through activities such as our "Cellcom Volume" youth centers, we make financial donations to other worthy causes and entities. In August 2006, our Board of Directors determined that we will donate an amount equal to up to one percent of our annual net income. In 2008 we donated a total sum of approximately NIS 7 million, including our contribution to the community.

We are aware of the importance of environmental protection. Accordingly, while providing quality products and services to our subscribers, we seek to operate responsibly to continuously reduce negative impacts on the environment and the landscape, aiming at a better environmental performance than required by local law. We dedicate personnel, funds and technologies to improve our performance, strive to achieve an efficient deployment of infrastructure subject to the applicable standards, and cooperate with the local authorities. We

constantly monitor our environmental performance and aim to reduce our ecological footprint, through activities such as recycling, reduction of pollutants' emissions and energy usage as well as activities aimed at allowing our subscribers to better protect the environment, such as collecting used batteries and sending subscribers their monthly bill for our services and other correspondence from us via e-mail in lieu of regular mail. In 2007 we prepared and published in Israel a public report on our environmental performance, also available on our website at www. cellcom.co.il.

C. ORGANIZATIONAL STRUCTURE

The IDB Group

Our largest shareholder, DIC, is a majority-owned subsidiary of IDB Development Corporation Ltd., or IDB Development, which in turn is a majority-owned subsidiary of IDB Holding Corporation Ltd., or IDB, one of Israel's largest business groups. IDB, IDB Development and DIC are public Israeli companies traded on the Tel Aviv Stock Exchange. See the footnote to the table under "Item 7.A – Major Shareholders" for information on the holdings in IDB. We do not have any significant subsidiaries.

D. PROPERTY, PLANT AND EQUIPMENT

Headquarters

In August 2003, we entered into a long-term agreement for the lease of our headquarters in Netanya, Israel. The leased property covers approximately 57,800 square meters, of which approximately 26,000 square meters consist of underground parking lots. The lease has an initial term of ten years and is renewable for three additional periods of five years each, upon our notice.

Service centers, points of sale and cell sites

As of December 31, 2008, we leased approximately 30 service centers, points of sale and other facilities, which are used for marketing, sales and customer service. Lease agreements for our retail stores and service centers are generally for periods of two to three years, with extension options that vary by location.

In addition, we lease from various parties, including the ILA, municipalities and private entities sites for the establishment, maintenance and operation of cell sites for our cellular network.

The duration of these lease agreements varies and ranges, in most cases, from two to six years, with an option to extend the lease for successive similar periods. The lease agreements also differ from each other in aspects such as payment terms and exit windows that enable us to terminate the agreement prior to its scheduled expiration. In some of the agreements, the lessor is entitled to terminate the agreement at any time without cause, subject to prior notice. Based on our past experience, we encounter difficulties in extending the term of approximately 6% of the lease agreements for cell sites, which at times results in our having to pay substantially higher rent in order to remain in the same locations or to find alternative sites.

Authorization agreement with land regulatory authorities

In October 2005, we entered into an authorization agreement with the ILA (which manages the lands of the Development Authority and the Jewish National Fund) that authorizes us to use lands managed by the ILA for the establishment and operation of cell sites. The authorization agreement is effective for a term of five years commencing January 1, 2004. We are currently negotiating the renewal of the agreement with the ILA, in light of the ILA's demand for increased consideration. Any delay in the renewal of the agreement may cause a delay in the construction of new cell sites on the lands managed by the ILA.

The authorization agreement provides that subject to the receipt of approval from the ILA, we will be entitled to establish and operate cell sites on the lands leased to third parties throughout the agreement's term. In connection with the authorization agreement we undertook to vacate at the end of the agreement's term all facilities installed in the authorized area unless the authorization period is extended.

Under the authorization agreement, the ILA is entitled to revoke authorizations granted to us in the event of changes in the designation of the land on which a cell site was erected, in the event that we violate a fundamental condition of the authorization agreement, in the event that the holders of rights in the properties on which we erected cell sites breach the agreements between them and the ILA and in the event that the land on which a cell site was erected is required for public use.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following operating and financial review and prospects should be read in conjunction with "Item 3. Key Information – A- Selected Financial Data" and our consolidated financial statements and accompanying notes appearing elsewhere in this annual report. Our financial statements have been prepared in accordance with International Financial Reporting Standards and IFRS 1, or IFRS, which differ in certain respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP. Following our adoption of IFRS, as issued by the IASB, we are no longer required to reconcile our financial statements prepared in accordance with IFRS to U.S. GAAP.

In accordance with the instructions of the Israeli Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)", which was published in July 2006, we have adopted IFRS as issued by the IASB, with effect from January 1, 2008, based upon the guidance in IFRS 1, "First-time adoption of IFRSs", and have prepared our financial statements according to IFRS. In accordance with IFRS 1, we have presented comparative financial statements as at and for the year ended December 31, 2007, prepared in accordance with IFRS. In addition, we have disclosed in note 31 to our financial statements as of December 31, 2008 included elsewhere in this annual report, the influence of the transition to IFRS (from financial statements prepared in accordance with Israeli GAAP) on our financial statements for the year ended December 31, 2007.

This discussion contains forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under "Item 3. Key Information – D. Risk Factors" and elsewhere in this annual report.

A. OPERATING RESULTS

Overview

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues, revenues from services, cost efficiencies, EBITDA and EBITDA margins as of December 31, 2008, providing services to approximately 3.187 million subscribers in Israel with an estimated market share of 34.7%.

We earn revenues and generate our primary sources of cash by offering a broad range of cellular services through our network covering substantially all of the populated territory of Israel. These services include basic and advanced cellular telephone services, text and multimedia messaging services and advanced cellular content and data services. We also provide international roaming services to our subscribers in 174 countries as of December 31, 2008 as well as to subscribers of foreign networks visiting Israel. We offer our subscribers a wide selection of handsets of various leading global manufacturers as well as extended warranty services. We have an advanced fiber-optic transmission infrastructure of approximately 1430 kilometers. Together with our complementary microwave-based infrastructure, our fiber-optic infrastructure connects the majority of our cell sites with the remainder connected using supplemental transmission capacity leased from Bezeq, the incumbent landline operator. Having our own transmission network enables us to save substantial operating cash lease costs that would be associated with complete reliance on Bezeq's infrastructure, although these savings are partially offset by maintenance costs and microwave spectrum fees. It also allows us to sell transmission and data services to business customers and telecommunications operators. In April 2006, we received a license to provide landline telephone services in Israel as well and we began to offer these services to selected businesses in July 2006 and as of February 2008, we offer additional advanced landline services to selected landline business customers through our NGN system. Although we do not expect revenues from landline telephony services to amount to a material portion of our revenues in 2009, we consider landline telephone services to be a future growth opportunity and we believe that revenues from these services will increase significantly in 2009.

Our management evaluates our performance through focusing on our key performance indicators: number of subscribers, churn rate, average minutes of usage per subscriber, or MOU, average revenue per subscriber, or ARPU, EBITDA (as defined in "Results of Operations") and operating income. These key performance indicators are primarily affected by the competitive and regulatory landscape in which we operate and our ability to adapt to the challenges posed. We have modified our process for calculating our number of subscribers at various times in the past. This modification impacts the comparability of our subscriber count and other key performance indicators.

Our competitive landscape is characterized by a highly penetrated cellular market. Competition is intense and attracting new subscribers and retaining existing subscribers has

become increasingly difficult and costly. The competition in our market has further increased as a result of the implementation of number portability in December 2007, as it has removed a deterrent to switching providers. We intend to drive revenue growth primarily by: maintaining and enhancing our strong brand; retaining our existing subscribers; increasing our ARPU by offering new and advanced services as well as increasing our content and land line services revenues; and attracting new subscribers. In particular, in addition to being an important factor in selecting a cellular provider, we believe that content and other value-added services are a potential growth engine for increasing revenues. Since the full launch of our 3.5G HSPA based services, in 2006, revenues from our content and data services have grown significantly. The cellular industry is primarily regulated by the Ministry of Communications. See "Item 4. Information on the Company – B. Business Overview - Government Regulations." While our pricing is not generally regulated, certain of our rates are subject to regulation. In particular, the annual reduction of interconnect tariffs by the Ministry of Communications commencing in March 2005 and ending in 2008, has adversely affected our results and required us to find alternative sources of revenues to compensate for these reductions. A Government resolution adopted in August 2008, instructs the Ministry of Communications to review the interconnect fees and adjust them accordingly, during 2009. Commencing January 1, 2009, the basic airtime charging unit, as well as the interconnect tariff unit, was decreased from a 12-second basic charging unit to a one-second basic charging unit. Additionally, in September 2007 our general license was further amended in a manner that prevents us from offering our subscribers calling plans using airtime charging units other than the basic airtime charging unit. Commencing January 1, 2009, our license prevents us from raising tariffs to non-business customers having an obligation to purchase our services for a predefined period during such period. We have been taking steps to address the effects of these amendments including initiating new and innovative marketing plans, such as "Cellcom by the Second" and "buckets of minutes" plans.

The construction and operation of our cell sites and other transmission facilities are highly regulated and require us to obtain various consents and permits. See "Item 4. Information on the Company – B. Business Overview - Government Regulations—Permits for Cell Site Construction." We have experienced difficulties in obtaining some of these consents and permits, particularly in obtaining building permits for cell sites from local planning and building authorities. See "Item 3. Key Information – D. Risk Factors. We may not be able to obtain permits to construct and operate cell sites." However, even though 17 criminal and administrative proceedings (with one cell site subject to a demolition order) are outstanding as of December 31, 2008, we do not expect that the demolition of these facilities would have a material impact on our results of operations and financial condition. In December 2008, the Minister of Environmental Protection signed the Non-Ionizing Radiation Regulations, which do not include a section setting restrictions (including maximum levels of exposure to non ionizing radiation) in relation to the operation of cell sites and other facilities, that had appeared in the earlier draft legislation. A petition filed in connection with such regulations awaits consideration by the Supreme Court. If such restrictions are subsequently adopted, they will, among other things, limit our ability to construct new sites and renew operating permits for a number of our existing sites, especially in residential areas. We are also monitoring the legislative process with respect to the National Zoning Plan 36, but until the process is completed and a final draft is enacted, we will not be in a position to assess their potential impact on our results of operations and financial condition. Moreover, if we are unable to obtain or renew consents and permits or rely on exemptions from obtaining permits for our existing sites or other facilities, we will be required to demolish or relocate these cell sites and facilities. Our inability to relocate cell sites or other facilities in a

timely manner and/or our inability to obtain the permits and consents for new cell sites, could adversely affect our existing network resulting in the loss of subscribers, prevent us from meeting the network coverage and quality requirements contained in our license and adversely impact our network build-out, all of which may have a material adverse result on our results of operations and financial condition.

Our profitability is also affected by other factors, including changes in our cost of revenues and selling, general and administrative expenses, including depreciation and finance expenses.

Following the acquisition by DIC of a majority interest in us in September 2005, DIC brought in a new management team, including Ami Erel, the Chairman of our Board of Directors, who has been President and CEO of Bezeq, Amos Shapira, our Chief Executive Officer who has been chief executive officer of Kimberly-Clark's Israeli subsidiary and of El Al Airlines, Tal Raz, our Chief Financial Officer, one of the founders and formerly a director of Partner, one of our principal competitors and Adi Cohen, our VP Marketing, who had been marketing manager of Shufersal, Israel's largest retail chain, and previously, Partner's marketing manager. Our management team has implemented a series of initiatives to drive growth, including the continued enhancement of our distinctive brand, greater focus on customer service and new sales campaigns, including the launch of new content services, alongside a continued managerial focus on ongoing efficiency increase. This streamlining has improved our operating cost structure and reduced our general and administrative expenses. Following implementation of these initiatives, our revenues and operating income increased in 2007 by approximately 8% and 30%, respectively and in 2008 by approximately 6% and 26%, respectively (compared with 2007). Notwithstanding these savings and management's continued focus on cost cutting initiatives, we expect that the higher cost of 3G enabled handsets to support our advanced content and data services may increase the costs related to subscriber acquisition and retention and handset repairs.

Our results are also impacted by currency fluctuations. While substantially all of our revenues are denominated in NIS, for 2008, approximately 33% of cash outflow was denominated in, or linked to, other currencies, mainly U.S. dollars. These payments included capital expenditures, some cell site rental fees, payments to equipment including handset suppliers and payments of principal and interest on our credit facility (voluntarily prepaid in full in March 2008). Changes to the Israeli CPI, may also impact our results as our debentures and some of our expenses are linked to the Israeli CPI. Any devaluation of the NIS against the U.S. dollar or other foreign currencies will therefore increase the NIS cost of our expenses that are not denominated in NIS or are linked to those currencies and any increase in the Israeli CPI will increase the financial expenses associated with our debentures. We enter into derivative instruments to mitigate the effect of the various market risks associated with these expenses. See "Item 11 - Quantitative and Qualitative Disclosures About Market Risk."

Further, we incurred significant debt in late 2005 and in the first half of 2006, which increased our financial expenses compared with historical results. We issued approximately NIS 2.0 billion principal amount of two series of debentures which bear interest at the rates of 5.0% and 5.3% and are linked to the Israeli CPI. In addition, in October 2007 and February 2008, we issued two new series of debentures to the public in Israel, for a total principal amount of approximately NIS 1,647 million which bear interest at annual rates of 4.60% and 5.19%, respectively and are linked to the Israeli CPI. See "Item 5. Operating and Financial Review and Prospects – A. Debt Service".

In February 2006, our Board of Directors adopted a policy to distribute each year at least 75% of our annual net income. Our net income was determined under Israeli GAAP for periods until December 31, 2007 and for periods commencing on or after January 1, 2008, is determined under IFRS, following the adoption of IFRS in accordance with the Israeli Accounting Standard No. 29 "Adoption of International Financial Reporting Standards". In March 2007, our Board resolved to distribute dividends within the boundaries of the February 2006 dividend policy and until resolved otherwise, on a quarterly basis. During 2006, we distributed cash dividends in the aggregate amount of NIS 3.83 billion mainly from retained earnings accumulated over the previous years and in 2007 we distributed cash dividends in the aggregate amount of NIS 655 million. Prior to 2006, we had not distributed dividends since our inception.

In the first nine months of 2008, we distributed cash dividends in the aggregate amount of approximately NIS 1.53 billion, including the dividend declared for the fourth quarter of 2007 and a one-time extraordinary full year dividend for 2007 in the aggregate amount of NIS 700 million. Our board of directors has also declared a cash dividend for the fourth quarter of 2008 of NIS 2.75 per share, or approximately NIS 270 million in the aggregate.

Any dividends may be declared solely by our Board of Directors, which will take into account the factors set out in "Item 8. Financial Information – A. Statements and Other Financial Information - Dividend Policy". The dividend per share that we will pay for the fourth quarter of 2008 does not reflect the level of dividends that will be paid for future quarterly periods, which can change at any time in accordance with the policy set out above. See "Item 8. Financial Information – A. Statements and Other Financial Information - Dividend Policy" and "—Liquidity and Capital Resources—Dividend payments." Also, in the future our Board of Directors may determine that our cash needs for debt service, capital expenditures or operations may increase and that it would not be prudent to distribute dividends.

On February 9, 2007, we closed the initial public offering of our ordinary shares and their listing on the NYSE. The offering was made solely by certain of our existing shareholders, and we did not receive any proceeds. The selling shareholders agreed to bear the out-of-pocket expenses of the offering. This offering fulfilled the agreement of our majority shareholder, DIC, with some of our other shareholders to endeavor to cause us to undertake an initial public offering by 2009 and it enables us to take advantage of the equity and debt capital raising opportunities available to a public company in the capital markets, to have the ability to use equity based compensation schemes as a tool to incentivize management to generate positive operating results and to provide access to certain of our shareholders to sell their shares. In July 2007, our shares were dual listed on the TASE. As a public dual-listed company, our legal and financial compliance costs are higher than as a private company and some activities are more time-consuming and costly.

2006 Share Incentive Plan

In September 2006, our Board of Directors approved an option plan for our employees, officers and directors. The plan had an initial pool of 2,500,000 shares in respect of which options and restricted stock units, or RSUs, may be granted. In October and November 2006, we granted options to purchase an aggregate of 2,414,143 ordinary shares at an exercise price of $12.60 per share. Among those grants were options to purchase up to 450,000 ordinary shares to each of Ami Erel, our Chairman of the Board, and Amos Shapira,

our Chief Executive Officer. The remainder of the options grants was made to our senior employees. In March 2007, we granted options to purchase an aggregate of 30,786 ordinary shares at an exercise price of $12.60 per share to certain of our senior employees, under the terms of the plan. In August 2008, we granted options to purchase an aggregate of 27,500 ordinary shares at an exercise price of $25 to certain of our senior employees. Distribution of cash dividends before the exercise of these options will reduce the exercise price of each option by an amount equal to the gross amount of the dividend per share distributed. During 2008, 844,591 options, which constitute substantially all vested options and approximately half of the amount of options granted, were exercised by Messrs. Ami Erel and Amos Shapira and other senior employees; 300,817 options were canceled (due to our net exercise mechanism); and 4,125 options previously granted to senior employees were revoked and returned to the option pool. As of December 31, 2008, the number of outstanding options to purchase ordinary shares amounted to 1,274,863. However, the terms of the 2006 Share Incentive Plan provide for a net exercise mechanism, the result of which is to require us to issue a smaller number of ordinary shares than represented by the outstanding options. Unless the Board of Directors otherwise approves, the number of ordinary shares issuable by us upon the exercise of an option will represent a market value that is equal to the difference between the market price of the ordinary shares and the option exercise price of the exercised options, at the date of exercise. In August 2008, we amended the option plan and the terms of our outstanding options as follows: (1) the definition of corporate transactions triggering accelerated vesting of the options, was changed to DIC ceasing to "control" us (as the term "control" is defined in the Israeli Securities Law, namely the ability to direct a company's activities) (previously - upon a decrease in DIC's share ownership to less than 50.01% of our outstanding share capital); (2) we are required provide the grantees with a ten day period to exercise the options upon the occurrence of a corporate transaction. An additional change was approved only in regards to options already granted prior to the adoption of the amendment: when a grantee is dismissed without cause, an additional period of up to six (6) months from the date of dismissal will be allowed for vesting of the third or fourth portions of the options to occur.

In general, the options and RSUs vest in four equal installments on each of the first, second, third and fourth anniversaries of the date of grant. Under IFRS, we are required to expense the grant date fair value of the options over their vesting period. In accordance with these standards, we estimated the total compensation cost related to the options granted to be approximately NIS 53 million as of the date of grant, to be recognized over the vesting period commencing on February 9, 2007, the date of completion of our initial public offering. In 2007 we expensed approximately NIS 29 million of the total compensation cost. During 2008 we reevaluated the total compensation cost related to the options granted and increased it by approximately NIS 4 million. Pursuant to sales in 2008 of our ordinary shares held by DIC, that led to a reduction in DIC's ownership to below 50.01%, the vesting of the options granted was considered accelerated for accounting purposes and the balance of the total compensation cost, in the amount of approximately NIS 28 million, was expensed during 2008.

Revenues

We derive our revenues primarily from the sale of cellular network services (such as airtime), handsets and other services, including content and value added services, extended handset warranties and the provision of transmission and landline services. Revenues from airtime are derived from subscribers originating calls on our network and from interconnect revenues from other operators for calls terminating on our network. Revenues also include

roaming charges that we bill to our subscribers for the use of the networks of our roaming partners outside Israel, to which we refer as outbound roaming, and charges that we bill to our roaming partners whose subscribers use our network, to which we refer as inbound roaming.

Our revenues are usually affected by seasonality. The third quarter of the year is usually the strongest quarter with the highest revenues, since it occurs in the summer season, characterized by longer daylight hours (facilitating higher airtime usage) and increased incoming and outgoing tourism (facilitating higher roaming revenues) . The fourth quarter of the year is usually the weakest quarter with lower revenues, since the Jewish holiday season, characterized by reduced usage, usually occurs in this quarter, and since it occurs in the fall-winter seasons, characterized by shorter daylight hours (resulting in lower airtime usage).

Cost of revenues

The principal components of our cost of revenues are interconnect fees, the purchase of handsets, accessories and spare parts, content cost, cell site leasing costs, outbound roaming services fees, royalty payments to the government of Israel, salaries and network development and maintenance. Our cost of revenues also includes depreciation of the cost of our network equipment and amortization of our spectrum licenses. See "—Application of Critical Accounting Policies and Use of Estimates—Long-lived assets - depreciation."

Selling and marketing expenses

Selling and marketing expenses consist primarily of sales force salaries and commissions, advertising, public relations and promotional expenses. We compensate our sales force through salaries and incentives.

General and administrative expenses

General and administrative expenses consist primarily of salaries and compensation, professional and consultancy fees, leases and maintenance of our offices, bad debt allowance, and other administrative expenses. Our general and administrative expenses also include depreciation and maintenance fees, mainly for our billing and information systems.

Other income and expenses

Other income and expenses consist primarily of capital gains or losses from sale of capital assets.

Financial income and expenses

Financial income and expenses consist primarily of interest expense on long-term and short-term loans and interest on our debentures, the interest income component of handset long-term installment sales, the effects of fluctuations in currency exchange rates, Israeli CPI adjustments related to the Israeli CPI-linked debentures and other expenses, and income or losses relating to financial derivative instruments that do not qualify for hedge accounting according to IFRS.

Income Tax

Generally, Israeli companies were subject to corporate tax on their taxable income at the rate of 27% for the 2008 tax year and is scheduled to further decrease as follows: 26% for

the 2009 tax year and 25% for the 2010 tax year and thereafter. Israeli companies are generally subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived from assets purchased after January 1, 2003. A deferred tax asset or liability is created for temporary differences between income recognized for tax purposes and for accounting purposes.

Results of Operations - Comparison of 2007 and 2008

The following table sets forth key performance indicators for the periods indicated:

	Year Ended December 31,		Change*
	2007	2008	2007 vs. 2008
Subscribers at end of period(1) (in thousands)	3,073	3,187	3.7%
Period churn rate(1)(2)	16.3%	18.9%	2.6pp
Average monthly usage per subscriber (MOU) (in minutes)(1)(3)	348	350	0.6%
Average monthly revenue per subscriber (ARPU) (1)(4) (in NIS)	150	149	(0.7%)
Operating income (in NIS millions)	1,332	1,684	26.4%
Net income (in NIS millions)	875	985	12.6%
EBITDA(5) (in NIS millions)	2,110	2,406	14.0%
Operating income margin(6)	22.0%	26.2%	4.2pp
EBITDA margin(7)	34.9%	37.5%	2.6pp

* pp denotes percentage points and this measure of change is calculated by subtracting the 2007 measure from the 2008 measure.

(1) Subscriber data refer to active subscribers. Commencing in 2006, we use a six-month method of calculating our subscriber base, which means that we deduct subscribers from our subscriber base after six months of no revenue generation or activity on our network by or in relation to both the post-paid and pre-paid subscriber. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel.

(2) Churn rate is defined as the total number of voluntary and involuntary permanent deactivations in a given period expressed as a percentage of the number of subscribers at the beginning of such period. Involuntary permanent deactivations relate to subscribers who have failed to pay their arrears for the period of six consecutive months. Voluntary permanent deactivations relate to subscribers who terminated their use of our services.

(3) Average monthly minutes of use per subscriber (MOU) is calculated by dividing the total billable minutes (of outgoing and incoming calls from other networks, excluding roaming usage) during the month, by the average number of subscribers during such month, and by dividing the sum of such results for all months in the reported period by the number of months in the period.

(4) Average monthly revenue per subscriber (ARPU) is calculated by dividing revenues from cellular services for the period by the average number of subscribers during the period and by dividing the result by the number of months in the period. Revenues from inbound roaming services are included even though the number of subscribers in the equation does not include the users of those roaming services. Inbound roaming services are included because ARPU is meant to capture all service revenues generated by a cellular network, including roaming services. Revenues from sales of extended warranties are included because they represent recurring revenues generated by subscribers, but revenues from sales of handsets, repair services and transmission services are not. We, and industry analysts, treat ARPU as a key performance indicator of a cellular operator because it is the closest meaningful measure of the contribution to service revenues made by an average subscriber.

We have set out below the calculation of ARPU for each of the periods presented:

	Year Ended December 31,	
	2007	2008
	(In NIS millions, except number of subscribers and months)	
Revenues	6,050	6,417
less revenues from equipment sales	635	745
less other revenues*	93	135
Revenues used in ARPU calculation (in NIS millions)	5,322	5,537
Average number of subscribers	2,955,855	3,105,022
Months during period	12	12
ARPU (in NIS, per month)	150	149

* Other revenues include revenues from repair services, transmission services and land-line services.

(5) EBITDA is a non-GAAP measure and is defined as income before financial income (expenses), net; other income (expenses), net; income tax; depreciation and amortization. We present EBITDA as a supplemental performance measure because we believe that it

facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structure (most particularly affecting our interest expense given our recently incurred significant debt), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense and the impact of purchase accounting (affecting depreciation and amortization expense). EBITDA should not be considered in isolation or as a substitute for operating income or other statement of operations or cash flow data prepared in accordance with Israeli GAAP as a measure of our profitability or liquidity. EBITDA does not take into account our debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, EBITDA, as presented in this annual report, may not be comparable to similarly titled measures reported by other companies due to differences in the way these measures are calculated.

The following is a reconciliation of EBITDA with net income and operating income:

	Year Ended December 31,	
	2007	2008
	(In NIS millions)	
Net income	875	985
Financing costs, net	147	310
Income taxes	310	389
Operating income	1,332	1,684
Other expenses (income), net	3	(29)
Depreciation and amortization	775	751
EBITDA	2,110	2,406

(6) Operating income margin is defined as operating income as a percentage of total revenues for each of the applicable periods.

(7) EBITDA margin is defined as EBITDA as a percentage of total revenues for each of the applicable periods.

The following table sets forth our selected consolidated statements of operations as a percentage of total revenues from operations for the periods indicated:

	Year Ended December 31,	
	2007	2008
Revenues	100.0%	100.0%
Cost of revenues	55.8%	53.0%
Gross profit	44.2%	47.0%
Selling and marketing expenses	11.3%	10.9%
General and administrative expenses	10.8%	10.3%
Other (income) expenses, net	0.1%	(0.4%)
Operating income	22.0%	26.2%
Financial income (expenses), net	(2.4%)	(4.8%)
Income before taxes	19.6%	21.4%
Income tax	5.1%	6.1%
Net income	14.5%	15.3%

Revenues

	Year Ended December 31,		Change
	2007	2008	2008 vs. 2007
	(In NIS millions)		
Revenues	6,050	6,417	6.1%

The increase in revenues in 2008 was mainly due to a 37% increase in revenues from content and value added services (including SMS), an increase in revenues from extended warranty services and an increase in revenues from sale of handsets and accessories, as well as a significant increase in revenues from land-line services. The increase in revenues was partially offset by the reduction of interconnect tariffs by the Ministry of Communications in March 2008 and the ongoing airtime price erosion.

The following table sets forth the breakdown of our revenues for the periods indicated based on the various sources thereof:

	2007		2008	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)	
Voice services:				
Outgoing air time*	2,861	47.3%	2,878	44.8%
Incoming air time	1,188	19.7%	1,169	18.2%
Roaming	424	7.0%	423	6.6%
Total voice services	4,473	74.0%	4,470	69.6%
Content and value added services**	492	8.1%	674	10.5%
Other services***	450	7.4%	528	8.3%
Total services	5,415	89.5%	5,672	88.4%
Handsets and accessories	635	10.5%	745	11.6%
Total	6,050	100.0%	6,417	100.0%

* Including air time packages and interconnect.

** Consists of content services, text messages and data services.

*** Consists of fixed monthly subscription fees, extended warranty fees, land-line services and others.

During 2008, revenues from services (comprising 88.4% of total revenues) increased by approximately 5%, compared with 2007. This increase in revenues from services resulted mainly from an increase in our subscriber base of approximately 3.7% (mainly among "post-paid" subscribers), an increase in revenues from content and value added services, as well as an increase from land-line services and extended warranty services. These increases were partially offset by the reduction in interconnect tariffs and the ongoing airtime price erosion.

During 2008, revenues from content and value added services increased by approximately 37% compared with 2007, mainly as a result of the growth in content services, text messages and sales of data packages, which is significantly attributable to the growth of our 3G subscriber base. As a percentage of service revenues, revenues from content and value added services increased to 11.9% in 2008 from 9.1% in 2007 and, as percentage of total revenues, from 8.1% to 10.5%.

During 2008, revenues from other services increased by approximately 17% mainly as a result of the increase in extended warranty fees, land-line services and fixed monthly subscription fees. As a percentage of revenues, revenues from other services increased to 8.3% in 2008 from 7.4% in 2007.

Handset and accessories revenues (comprising 11.6% of total revenues) during 2008 increased by 17.3% compared with 2007. This increase primarily resulted from an increase in the average handset sale price due to the larger amount of advanced 3G handsets in the mix of handsets sold in 2008. The increase was offset in part by a decrease in the total amount of handsets sold during 2008 which resulted from more aggressive sales campaigns launched in 2007 compared with 2008.

The following table sets forth the breakdown of our revenues for the periods indicated based on the types of subscribers:

	2007		2008	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)	

	2007		2008	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Individual	4,377	72.3%	4,626	72.1%
Business*	1,524	25.2%	1,654	25.8%
Other*	149	2.5%	137	2.1%
Total	6,050	100.0%	6,417	100.0%

* Consists of revenues from inbound roaming services and other services.

A breakdown of revenues according to types of subscribers (individual and business) during 2008 shows an approximately 6% increase in revenues attributable to individual subscribers and an approximately 9% increase in revenue attributable to business subscribers, compared with 2007. These increases are the result of a higher subscriber base and increased usage.

The following table sets forth the breakdown of our revenues for the periods indicated based on the types of subscription plans:

	2007		2008	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)	
Pre-paid	729	12.0%	696	10.9%
Post-paid	5,172	85.5%	5,584	87.0%
Other*	149	2.5%	137	2.1%
Total	6,050	100.0%	6,417	100.0%

* Consists of revenues from inbound roaming services and other services.

A breakdown of revenues according to types of subscription plans (pre-paid and post-paid) shows that the increase in revenues in 2008 compared with 2007 resulted from post-paid subscribers. This increase is primarily the result of an increase in revenues from services resulting from an increase in usage of content and value-added services, in land-line services and from the expansion of our subscriber base.

Cost of revenues and gross profit

	Year Ended December 31,		Change
	2007	2008	2008 vs. 2007
	(In NIS millions)		
Cost of revenues-services	2,577	2,570	(0.3%)
Cost of revenues-equipment	800	832	4.0%
Total cost of revenues	3,377	3,402	0.7%
Gross profit	2,673	3,015	12.8%

The decrease in cost of revenues-services in 2008 resulted mainly from a decrease in depreciation expenses and in royalties paid to the Ministry of Communications resulting from a decline in the royalties' rate. The decrease was partially offset by an increase in interconnect fees due to an increase in the number of outgoing calls ended in other operators' networks, an increase in cost of content and value-added services due to increased usage and an increase in handsets repair cost due to higher maintenance cost for the advanced handsets sold.

The increase in cost of revenues-equipment in 2008 resulted primarily from an increase in the average handset cost due to a larger amount of advanced 3G handsets sold during 2008 and an increase in currency hedging expenses related to handsets purchases, which was partially offset by increased efficiency in handset procurement.

The increase in gross profit in 2008 resulted mainly from increases in revenues from content and value added services and revenues from landline services. The increase also benefited from a decrease in handsets subsidy. These increases were partially offset by the reduction in interconnect tariffs and the ongoing airtime price erosion.

Selling and marketing expenses and general and administrative expenses

	Year Ended December 31,		Change
	2007	2008	2008 vs. 2007
	(In NIS millions)		
Selling and marketing expenses	685	701	2.3%
General and administrative expenses	653	659	0.9%
Total	1,338	1,360	1.6%

The increase in selling and marketing expenses in 2008 was mainly due to an increase in payroll expenses resulting from the expansion of our services and sales teams at the end of 2007 and the beginning of 2008, as part of our preparation for the implementation of number portability and our strategy to constantly improve service level and customer satisfaction. The increase also resulted from an increase in customer retention expenses. These increases were partially offset by a decrease in advertising and postage expenses. Following the expanded marketing of innovative new plans with guaranteed revenues during 2007 and according to accounting standards, we are required to defer sales commissions related to acquisition and retention of subscribers with guaranteed revenues and to recognize such commissions as intangible assets, to be amortized over the expected life of such subscribers' guaranteed revenues. We commenced deferring these commissions in the fourth quarter of 2007. The deferred sales commissions in 2008 amounted to approximately NIS 60 million compared with approximately NIS 21 million in 2007. Amortization of deferred sales commissions increased in 2008 to approximately NIS 36 million compared with approximately NIS 2 million in 2007.

General and administrative expenses increased in 2008 as a result of an increase in bad debts and doubtful accounts expenses, mainly following the implementation of number portability, which allows subscribers to switch to another cellular operator without settling their outstanding debt first. This increase was partially offset by a decrease in depreciation and amortization expenses in 2008.

Other income (expenses), net

	Year Ended December 31,	
	2007	2008
	(In NIS millions)	
Other income (expenses), net	(3)	29

Other income in 2008 consists mainly from capital gains from sales of certain surplus underground pipes for fiber optic cables.

Financing costs, net

	Year Ended December 31,	
	2007	2008
	(In NIS millions)	
Financing expenses	(287)	(393)
Financing income	140	83
Financing costs, net	(147)	(310)

Financing costs increased in 2008, compared with 2007, resulting primarily from an increase in interest and CPI linkage expenses associated with our debentures, due to the increase in our outstanding indebtedness following the issuance of our new series of debentures in October 2007 and the expansion of these series in February 2008 and the increased inflation rate of 4.5% in 2008 compared with 2.8% in 2007. The increase also resulted from embedded derivatives expenses in 2008 compared with embedded derivatives income in 2007. This increase was partially offset by a decrease in interest expenses related to our credit facility which was voluntarily prepaid in full in March 2008.

Interest and CPI linkage expenses associated with the principal amount of the debentures, and interest expenses resulting from the credit facility (voluntarily prepaid in full, in March 2008) incurred during 2008 and 2007 were approximately NIS 367 million and NIS 249 million, respectively.

Income tax

	Year Ended December 31,		Change
	2007	2008	2008 vs. 2007
	(In NIS millions)		
Income tax	310	389	25.5%

Income tax in 2008 increased by 25.5%, compared with 2007, resulting from the increase in income before income tax and pursuant to the release in 2007 of a tax provision in the amount of approximately NIS 55.5 million, which was recorded in 2006. The increase was partially offset by a reduction in income tax rate to 27% in 2008 from 29% in 2007.

Net income

	Year Ended December 31,		Change
	2007	2008	2008 vs. 2007
	(In NIS millions)		
Net income	875	985	12.6%

The increase in net income in 2008 was due primarily to an increase of 6.1% in revenues while total operating expenses increased by less than 1.0%, leading to an increase of 26.4% in operating income. This increase was partially offset by the significant increase in financing costs and the increase in income tax.

B. LIQUIDITY AND CAPITAL RESOURCES

General

Our liquidity requirements relate primarily to working capital requirements, debt service, capital expenditures for the expansion and improvement of our networks and

payment of dividends. Until the end of 2005, these requirements had been funded largely through funds generated from operations and bank borrowings. However, in late 2005 and the first half of 2006, we raised significant additional capital by issuing two series of debentures in the aggregate principal amount of approximately NIS 2.0 billion ($526 million) and by establishing a credit facility of $350 million (voluntarily prepaid in full and terminated in March 2008). Our Board of Directors, at the request of our shareholders, determined to incur such debt, and pay dividends in excess of the amount of such debt with available cash and proceeds of the borrowings, to increase the leverage in our capital structure and improve our shareholders' expected rate of return on our equity. In addition, in October 2007, we issued two new series of debentures to the public in Israel, for a total principal amount of approximately NIS 1,072 million ($282 million) and in February 2008 we issued, in a private placement, additional debentures of these two new series, for a total principal amount of approximately NIS 575 million ($151 million).

We believe that our free cash flow together with our financial reserves will be sufficient to fund our anticipated cash needs for working capital, capital expenditures and debt service for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support marketing and subscriber retention efforts, the expansion of sales and marketing activities and the timing of introductions of new products and enhancements to existing products.

In February 2006, our Board of Directors adopted a policy to distribute each year at least 75% of our annual net income (determined in accordance with Israeli GAAP for periods until December 31, 2007 and in accordance with IFRS - for periods commencing on or after January 1, 2008), subject to compliance with applicable law, our license and contractual obligations and so long as the distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Dividend Policy." It is possible that our Board of Directors' estimate of our cash needs will be incorrect, or that events could occur that could increase our cash needs beyond anticipated. If that occurs, we may not have sufficient cash to cover these needs as a result of prior dividend payments, and we would need to identify additional sources of financing, which could include equity or debt financing. We may not be able to obtain such financing on acceptable terms or at all.

Dividend payments

In the first nine months of 2008, we distributed cash dividends in the aggregate amount of NIS 1.53 billion ($402 million), including the dividend declared for the fourth quarter of 2007 and a one-time extraordinary dividend for the year 2007 in the aggregate amount of NIS 700 million ($184 million), based on net income and existing retained earnings . During 2007, we distributed cash dividends in the aggregate amount of NIS 655 million ($172 million) based on net income and existing retained earnings. During 2006, we distributed cash dividends in the aggregate amount of NIS 3.83 billion ($1.01 billion) based on retained earnings accumulated since our inception. We did not distribute any dividends prior to 2006.

Debt service

Public debentures

In December 2005 and January 2006, we issued two series of debentures to institutional and other investors in private placements. In May 2006, we issued additional debentures of the existing two series. The debentures are listed on the Tel Aviv Stock Exchange. The debentures consist of approximately NIS 947 million ($249 million) aggregate principal amount of Series A Debentures (after we repaid the first principal payment in July 2008, in the sum of NIS 118 millions ($31 million)) and approximately NIS 925 million ($243 million) aggregate principal amount of Series B Debentures. The Series A Debentures bear interest at the rate of 5.0% per year, and are linked (principal and interest) to the Israeli CPI. The principal is payable in nine semiannual payments commencing in July 2008, and the interest is payable semiannually commencing in July 2006. The Series B Debentures bear interest at the rate of 5.3% per year, and are linked (principal and interest) to the Israeli CPI. The principal is payable in five annual payments commencing in January 2013, and the interest is payable annually commencing in January 2007.

The Series A and B debentures are unsecured and do not restrict our ability to issue additional debentures of any class or distribute dividends in the future. The Series A and B debentures contain standard terms and obligations including restriction on our ability to create liens on our assets, other than fixed liens on assets provided in connection with financing the purchase of such assets.

In October 2007 we issued two new series of debentures (Series C and Series D) to the public in Israel. The debentures are listed for trading on the Tel Aviv Stock Exchange.

The Series C and D Debentures were issued for a total principal amount of NIS 245 million ($64 million) and approximately NIS 827 million ($218 million), respectively. The Series C principal is payable in nine equal semiannual payments on March 1 and September 1, for each of the years 2009 through 2012 (inclusive) and on March 1, 2013. The interest on Series C debentures is payable semiannually on March 1 and on September 1, for each of the years 2008 through 2012 (inclusive) and on March 1, 2013. The Series D principal is payable in five equal annual payments on July 1, for each of the years 2013 through 2017 (inclusive). The interest on Series D debentures is payable annually on July 1, for each of the years 2008 through 2017 (inclusive). Series C and D debentures bear an annual interest rate of 4.60% and 5.19%, respectively and are linked (principal and interest) to the Israeli CPI for August 2007.

In February 2008 we issued, in a private placement, additional debentures of Series C in a principal amount of NIS 81 million ($21 million) and additional Series D Debentures in a principal amount of approximately NIS 494 million ($130 million). .

The Series C and D debentures are unsecured and do not restrict our ability to issue additional debentures of any class or distribute dividends in the future. The Series C and D debentures contain standard terms and obligations.

Credit facility from bank syndicate

In March 2006, we entered into an unsecured syndicated facility agreement with a number of Israeli and international banks arranged by Citibank N.A. and Citibank International plc, which provided for a term loan of $280 million and a revolving credit

facility of up to $70 million. In March 2008 we voluntarily prepaid the balance of the loan and the facility was terminated.

Other credit facilities

As of December 31, 2008, there were no other credit facilities outstanding.

Capital expenditures

Our accrual capital expenditure in 2006, 2007 and 2008 amounted to NIS 521 million, NIS 573 million and NIS 556 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and intangible assets, such as spectrum licenses, during a given period. For the periods under review, a key focus of our capital investment has been the build out of our UMTS/HSPA network.

Cash flows from operating activities

Cash flows from operating activities decreased by 3.1% in 2008 to NIS 1,763 million from NIS 1,820 million in 2007. The decrease resulted mainly from the higher expenditure related to the expansion in our workforce and the increase in customer retention and acquisition costs, especially at the beginning of 2008 following the introduction of number portability in December 2007, as well as from an increase in income tax paid during 2008, which included a one-time catch up payment of NIS 70 million for 2007 accrued tax liability. These increases were partially offset by other operating activities.

Cash flows from investing activities

The net cash flows from operating activities is the main capital resource for our investment activities. In 2007 and 2008, our net cash used in investing activities amounted to NIS 560 million and NIS 546 million, respectively. The payments were primarily for the expansion of the technological networks and information systems infrastructures.

Cash flows from financing activities

In 2008, the net cash used in financing activities amounted to NIS 1,853 million compared with NIS 405 million in 2007. The increase is primarily due to an increase in cash dividend paid and a decrease in proceeds from issuance of debentures.

During 2008 we voluntarily prepaid in full the outstanding balance of our credit facility in the amount of NIS 648 million and received net amount of NIS 589 million from the expansion of two existing series of debentures in February 2008. We also made debentures' payments of principal in the aggregate amount of NIS 125 million and interest payments in the aggregate amount of NIS 175 million mostly related to our debentures. Furthermore, during 2008, we paid cash dividends in the amount of NIS 1.525 billion (excluding the difference between withholding tax in respect of the last dividends distributed in 2007 and 2008, which were paid subsequent to balance sheet dates).

During 2007 and 2008, the average outstanding amount of long-term liabilities (long-term loans and debentures) was NIS 3.2 billion and NIS 3.8 billion, respectively

Working capital

Our working capital as of December 31, 2008 was NIS 481 million, compared with working capital of NIS 734 million as of December 31, 2007. The decrease in working capital was mainly due to the decrease in cash and cash-equivalents, resulting mainly from the increase in cash dividend distributed in 2008 compared with 2007. This decrease was partially offset by a decrease in trade payables and accrued expenses, due to the higher balances at the end of 2007 attributed to our preparation for number portability launched in December 2007.

Trade receivables

Trade receivables consist of outstanding amounts due from customers, mainly for cellular services and handsets and accessories, net of the allowance for doubtful accounts. Most of our handset sales are made on an installment basis (generally, 36 monthly payments). Installments due in the twelve months following the balance sheet date are included in current trade receivables; the remaining installments are included in long-term receivables. As of December 31, 2008, net trade receivables amounted to NIS 1,478 million compared with NIS 1,385 million as at December 31, 2007. This increase was primarily due to the increase in our revenues. The current maturity of long-term receivables as of December 31, 2008 was NIS 666 million.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

[Not applicable.]

D. TREND INFORMATION

Trend information is included throughout the other sections of this Item 5.

E. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Set forth below is a description of our contractual cash obligations, in millions of NIS, as of December 31, 2008.

	Total	2009	2010- 2012	2013-2014	2015 and Beyond
Long-term debt obligations (including interest)(1)	4,749	516	1,450	1,211	1,572
Operating lease obligations	666	221	351	78	16
Purchase obligations	119	119	—	—	—
Total	5,534	856	1,801	1,289	1,588

(1) Interest does not include (a) payments that could be required under our interest-rate swap agreements; such payments will depend upon changes in interest rates and could vary significantly, or (b) any increase in interest that would be required based on increases in the Israeli CPI.

Application of Critical Accounting Policies and Use of Estimates

The preparation of our financial statements requires management to make estimates and assumptions that affect the amounts reflected in the consolidated financial statements and accompanying notes, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience, where applicable, and on other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and could have a material impact on our reported results.

In many cases, the accounting treatment of a particular transaction, event or activity is specifically dictated by accounting principles and does not require management's judgment in its application, while in other cases, management's judgment is required in the selection of the most appropriate alternative among the available accounting principles, that allow different accounting treatment for similar transactions.

We believe that the accounting policies discussed below are critical to our financial results and to the understanding of our historical and future performance, as these policies relate to the more significant areas involving management's estimates and assumptions. We consider an accounting estimate to be critical if: (1) it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making our estimate and (2) changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

Revenue recognition

Nature of critical estimate items

As described in Note 3.J to our consolidated financial statements included elsewhere in this annual report. Revenues derived from usage of our networks, including airtime, interconnect, content and value added services and roaming revenues are recognized when the services are provided. Sale of handsets with accompanying services constitutes a revenue arrangement with multiple deliverables. Accordingly, consideration received for handsets, up to their fair value, that is not contingent upon delivery of additional items (such as the service), is recognized as equipment revenues upon the delivery of the equipment to the subscriber, when all revenue recognition criteria are met. Consideration for services is recognized as service revenues, when earned. In revenue arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. Revenue us recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods and the amount of revenue can be measured reliably.

Assumptions / approach used

We determine the fair value of the individual elements based on prices at which the deliverable is regularly sold on a stand alone basis, after considering volume discounts where appropriate.The accounting estimates used in the results of operations related to the recognition of revenue require us to make assumptions about possible future billing

adjustments arising from disputes with subscribers and discounts not taken into consideration at the time of billing.

Effect if different assumptions used

Management believes that the determination of fair value of the individual elements (relevant to revenue recognition) for each reporting period represent its best estimate, but the actual fair value can differ from the estimate selected. The impact of variances in actual performance versus the amounts recorded could have an adverse effect on the accounts receivable reported on the balance sheet and the results reported in the statements of operations, and could be material to our financial condition.

Long-lived assets – depreciation

Nature of critical estimate items

The cellular communications industry is capital intensive. The depreciation of operating assets constitutes a significant operating cost for us. We have substantial investments in tangible long-lived assets, primarily our communications networks.

Assumptions / approach used

We depreciate our property, plant and equipment using the straight line method. Separate individual significant components are depreciated over their individual estimated useful lives. We periodically review changes in our technology and industry conditions to determine adjustments to estimated remaining useful lives and depreciation rates.

Effect if different assumptions used

Changes in technology or changes in our intended use of these assets can cause the estimated period of use or the value of these assets to change. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in our assets' depreciable lives, and therefore, in our depreciation expense in future periods.

Impairment of long-lived assets

Nature of critical estimate items

We review finite-lived long-lived assets, principally consisting of property, plant and equipment, and spectrum licenses for impairment based on the requirements of International Accounting Standard No. 36, or whenever events or changes in circumstances indicate that their carrying values may not be recoverable through the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal. If necessary, we reduce the carrying values of the assets to their estimated fair values.

Assumptions / approach used

In analyzing finite-lived long-lived assets for potential impairment, significant assumptions that are used in determining the discounted cash flows of the asset group include:

- cash flows attributed to the asset group;

- future cash flows for the asset group, including estimates of residual values, which incorporate our views of growth rates for the related business and anticipated future economic conditions; and

- period of time over which the assets will be held and used.

Effect if different assumptions used

The use of different estimates and assumptions within our discounted cash flow modes (e.g., growth rates, future economic conditions, estimates of residual values) could result in discounted cash flows that are lower than the current carrying value of an asset group, thereby requiring the need to reduce the carrying value to the discounted cash flow amount.

The use of different discount rates when determining the fair value of the asset group could result in different fair values, and impact any related impairment charges.

Accounts receivable - bad debt and allowance for doubtful accounts

Nature of critical estimate items

We maintain an allowance for doubtful accounts to reflect estimated losses resulting from impairment of accounts receivables.

Assumptions / approach used

We regularly evaluate the adequacy of our allowance for doubtful accounts by taking into account variables such as past experience, age of the receivable balance and current economic conditions of the party owing the receivable balance. If the financial conditions of certain subscribers were to deteriorate, resulting in impairment in their ability to make payments, additional allowance for doubtful accounts may be required.

Effect if different assumptions used

We believe that our allowance for doubtful accounts is adequate to cover estimated losses in customer accounts receivable balances under current conditions. However, changes to the allowance for doubtful accounts may be necessary in the event that the financial condition of our customers improves or deteriorates.

Provisions for contingent liabilities

Provisions in general are highly judgmental, especially in cases of legal disputes. We assess the probability of an adverse event as a result of a past event and if the probability is evaluated to be more likely than not, we fully provide for the total amount of the estimated contingent liability. We continually evaluate our pending provisions to determine if additional accruals are required. It is often difficult to accurately estimate the ultimate outcome of a contingent liability. Different variables can affect the timing and amount we provide for certain contingent liabilities. Our provisions are therefore subject to estimates made by us and our legal counsel, which are subject to changes as the status of legal and commercial disputes changes over time. Adverse revision in our estimates of the potential liability could materially impact our financial condition, results of operations or liquidity.

New Accounting Standards

International Financial Reporting Standard No. 1, "First Time Adoption of International Financial Reporting Standard "

Our financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. These are our first annual consolidated financial statements that were prepared in accordance with IFRS and IFRS 1, "First Time Adoption of International Financial Reporting Standards".

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared in accordance with generally accepted accounting principles in Israel. The accounting policies have been applied consistently to all periods presented in our consolidated financial statements included elsewhere in this annual report. They also have been applied in preparing an opening IFRS balance sheet as at January 1, 2007 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from previous Israeli GAAP to IFRSs is explained in note 31 to our financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our directors, executive officers and other key employees as of December 31, 2008*:

Name	Age	Position
Ami Erel (2), (3)	61	Chairman of the Board
Nochi Dankner (3)	54	Director
Isaac Manor	67	Director
Shay Livnat (2), (3)	50	Director
Raanan Cohen (2), (4)	41	Director
Avraham Bigger	62	Director
Rafi Bisker (2) (4)	57	Director
Shlomo Waxe (1), (2), (4)	62	Independent Director
Haim Gavrieli	38	Director
Ari Bronshtein (2)	39	Director
Joseph Barnea (1), (2), (3), (4)	73	Independent / External Director
Ronit Baytel (1)	41	Independent / External Director
Amos Shapira	59	President and Chief Executive Officer
Tal Raz	47	Chief Financial Officer
Adi Cohen	43	Vice President of Marketing
Eliezer (Lipa) Ogman	55	Chief Technology Officer
Isaiah Rozenberg	48	Vice President of Engineering and Network Operation
Itamar Bartov	46	Vice President of Executive and Regulatory Affairs
Refael Poran	60	Vice President of Business Customers
Meir Barav	51	Vice President of Sales and Services
Ronit Ben-Basat	41	Vice President of Human Resources
Amos Maor	45	Vice President of Operations and Supply Chain
Liat Menahemi-Stadler	42	General Legal Counsel
Gil Ben-Itzhak	43	Controller

* Oren Lieder has served as a member of our Board of Directors until August 18, 2008.

(1) Member of our Audit Committee.

(2) Member of our Cost Analysis Committee.

(3) Member of our Option Committee.

(4) Member of our Security Committee.

Ami Erel has served as Chairman of our Board of Directors since 2005. Mr. Erel has served as President and Chief Executive Officer of Discount Investment Corporation Ltd. since 2001. From March to December 2007, Mr. Erel also served as the Chief Executive Officer of NetVision Ltd., where he served prior to March 2007 and continues to serve from January 2008, as Chairman of the board of directors. From 1999 to 2001, he served as President of Elron Electronic Industries Ltd., where he continues to serve as a member of the Board of Directors and also served, until January 2007, as Chairman of the board of directors. From 1997 to 1999, he served as President and Chief Executive Officer of Bezeq – The Israeli Telecommunications Corporation Ltd. Mr. Erel also serves as the Chairman of the board of directors of Koor Industries Ltd. and as a member of the boards of directors of Makhteshim-Agan Industries Ltd., Shufersal Ltd., Property and Building Corporation Ltd. and other IDB group companies. Mr. Erel has served as the chairman of the executive committee of the Manufacturers Association of Israel since 2005. Mr. Erel holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology.

Nochi Dankner has served as a member of our Board of Directors since 2005. Mr. Dankner currently serves as Chairman of the board of directors and Chief Executive Officer of IDB Holding Corporation Ltd. Mr. Dankner also serves as Chairman of the boards of directors of IDB Development Corporation Ltd., Discount Investment Corporation Ltd., Clal Industries and Investments Ltd., Ganden Holdings Ltd. and various private companies, and as a member of the boards of directors of Clal Insurance Enterprises Holdings Ltd., Clal Insurance Company Ltd., Shufersal Ltd., Property and Building Corporation Ltd., Koor Industries Ltd., Makhteshim-Agan Industries Ltd., until recently Elron Electronic Industries Ltd., and various private companies. Mr. Dankner also serves as the Chairman of the IDB fund "For the Community" (a non-profit organization), as a member of "Matan-Your Way to Give" (a non-profit organization), as a member of the management committee of the Association of Friends of the Tel Aviv Sourasky Medical Center, and as a member of the board of trustees of Tel Aviv University. Mr. Dankner holds an L.L.B. and a B.A. in political science, both from Tel Aviv University.

Isaac Manor has served as a member of our Board of Directors since 2005. Mr. Manor has served as the Deputy Chairman of the board of directors of IDB Holding Corporation Ltd. since 2003. From 1976 to 2001, he served as Chief Executive Officer of companies in the automobile sector of the David Lubinsky group, the importer of Peugeot and Citroen automobiles to Israel, where he currently serves as the Chairman of the board of directors. Mr. Manor also serves as a member of the board of directors of IDB Development Corporation Ltd., Discount Investment Corporation Ltd., Clal Industries and Investments Ltd., Shufersal Ltd., Property and Building Corporation Ltd., Hadera Paper Ltd. (formerly named American Israeli Paper Mills Ltd.), Clal Insurance Enterprises Holdings Ltd., Union Bank of Israel Ltd., Koor Industries Ltd., Makhteshim-Agan Industries Ltd. and various private companies. Mr. Manor holds an executive M.B.A. from the Hebrew University.

Shay Livnat has served as a member of our Board of Directors since 2005. Mr. Livnat has served as the Chief Executive Officer of Zoe Holdings Ltd., a holding company that manages a diverse portfolio of international telecommunications operations and hi-tech

companies, which was founded by him in 1988, since 2001. From 1988 to 1998, he served as Chief Executive Officer of Tashtit Ltd. Mr. Livnat also serves as a member of the boards of directors of IDB Development Corporation Ltd., Clal Industries and Investments Ltd., Clal Insurance Enterprises Holdings Ltd., Elron Electronic Industries Ltd. and various private companies. Mr. Livnat holds a B.A. in electrical engineering from Fairleigh Dickinson University in New Jersey, USA.

Raanan Cohen has served as a member of our Board of Directors since 2000. Mr. Cohen has served as Chief Executive Officer of Koor Industries Ltd. since July 2006. From 2004 to 2006, he served as Chief Executive Officer of Scailex Corporation Ltd.. Since 2001 he has served as Vice President of Discount Investment Corporation Ltd., having previously served, from 1999 to 2001, as executive assistant to the chief executive officer of Discount Investment Corporation Ltd. From 1997 to 1999, he was an associate at McKinsey & Company Inc., London. Mr. Cohen also serves as a member of the boards of directors of Makhteshim-Agan Industries Ltd., ECtel Ltd. and various private companies. Mr. Cohen is a member of the Israeli Bar Association and holds an L.L.B. and a B.A. in economics from Tel Aviv University and an M.B.A. in management from the J.L. Kellogg Graduate School of management of Northwestern University.

Avraham Bigger has served as a member of our Board of Directors since 2005. Mr. Bigger is the owner and managing director of three family-owned companies. Since October 2006, Mr. Bigger has served as the Chairman, and since January 2007 he has also served as Chief Executive Officer of Makhteshim-Agan Industries Ltd. From June 2003 to July 2007, Mr. Bigger served as the Chairman of the board of directors of Shufersal Ltd.; as the chairman of the boards of directors of various private companies; as the Deputy Chairman of the Caesarea Edmond Benjamin De Rothschild Foundation and the Caesarea Edmond Benjamin De Rothschild Development Corporation Ltd.; and as a member of the boards of directors of the First International Bank of Israel Ltd. and various private companies. Mr. Bigger holds a B.A. in economics and an M.B.A. from the Hebrew University.

Rafi Bisker has served as a member of our Board of Directors since 2006. Mr. Bisker currently serves as co-Chairman of Shufersal Ltd. and as the Chairman of Property and Building Corporation Ltd., Bayside Land Corporation Ltd. and various private companies. From 2000 to 2005, he served as Chief Executive Officer of Ganden Holdings Ltd and Ganden Real Estate Ltd.. From 1989 to 1999, he served as Chief Executive Officer of Dankner Investments Ltd. Mr. Bisker also serves as a member of the boards of directors of IDB Holding Corporation Ltd., IDB Development Corporation Ltd., Discount Investment Corporation Ltd., Clal Industries and Investments Ltd., Koor Industries Ltd., Ganden Holdings Ltd., ISPRO The Israel Properties Rental Corporation Ltd., Mehadrin Ltd., and various private companies. Mr. Bisker holds a B.Sc. in civil engineering from the Technion, Israel Institute of Technology.

Shlomo Waxe has served as a member of our Board of Directors since 2006. Mr. Waxe has served as Director General of the Israel Association of Electronics and Software Industries since 2006. From 2002 to 2005, he worked in the field of communications management and consultancy. From 1999 to 2001, he served as Chief Executive Officer of Zeevi Communications Ltd. From 1997 to 1999, he served as a consultant to cellular communications projects in Sao Paulo, Brazil and in Northeast Brazil. From 1993 to 1997, he served as the Director General of Israel's Ministry of Communications. From 1990 to 1993, he served as commanding officer of the signal, electronics and computer corps of the Israel Defense Forces and he is a retired brigadier general. Mr. Waxe also serves as a member

of the boards of directors of Tambour Ltd., C. Mer Industries Ltd. and Shrem, Fudim – Technologies Ltd. Mr. Waxe holds a B.A. in political science from the University of Haifa.

Haim Gavrieli has served as a member of our Board of Directors since August 18, 2008. Mr. Gavrieli has served as Executive Vice President of IDB Development since 2006 and also serves as a member of the boards of directors of Koor Industries Ltd., Makhteshim-Agan Industries Ltd., NetVision Ltd., other IDB group companies and various private companies. Mr. Gavrieli also serves as the Deputy Chairman of Shufersal Ltd. From April 2005 to November 2006 he served as Vice President of IDB Development. From April 2001 to April 2005, he served as personal assistant to the chairman of IDB and also as personal assistant to the Chairman of Ganden Holdings Ltd., and previously, from 1999 to 2001, Mr Gavrieli served as an advisor to the Israeli Minister of Finance. Mr. Gavrieli holds a B.A. in political science and sociology from the University of Haifa and an M.A. in management from the University of Haifa.

Ari Bronshtein has served as a member of our Board of Directors since August 18, 2008. Mr. Bronshtein has served as Vice-President of DIC since January 2006 and serves as a member of the board of directors of Elron Electronic Industries Ltd., Hadera Paper Ltd. (formerly named American Israeli Paper Mills Ltd.), Maxima Air Separation Center Ltd. and various private companies. Mr. Bronshtein had served as an external director and member of the investment committee of Dash Mutual Fund Management Ltd. and Koor - Tadiran Gemel. From 2004 to 2005, he served as Vice President and head of the Economics and Business Development division of Bezeq and from 2000 to 2003, as Director of Finance and Investments at Bezeq. From 1999 to 2000, he served as Manager of business analysis at Comverse Technologies, Inc. Mr. Bronshtein holds a B.A. in finance and management and M.Sc. degree in finance and accounting, both from Tel Aviv University.

Joseph Barnea has served as a member of our Board of Directors since 2007. Mr Barnea is a retired businessman. He served as the Chief Executive Officer of Oxygen & Argon Works Ltd. from 1987 to 2005 and continued to serve as a member of its management until 2006. From 1985 to 1987, he served as the Chief Executive Officer of Telkoor Ltd. From 1980 to 1985, he served as a Vice President of Elscint Medical Imaging Ltd. Mr. Barnea is a member of the executive committee of the Israeli Industrialists Association and from 2005 a member of the boards of the Israeli Export Institute and the Israeli Standards Institute. Until 2007 he served as the Chairman of its Chemistry and Environment Association. From 2001 to 2004 he served as Chairman and President of the International Oxygen Manufacturers Association (IOMA) USA. He served as Deputy Commander of the signal, electronics and computer corps of the Israeli Defense Forces. Mr. Barnea holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology and an M.Sc. in electrical engineering from Columbia University, New York, USA.

Ronit Baytel has served as a member of our Board of Directors since 2007. Ms. Baytel is a director in the finance department of Ormat Technologies, Inc., a company listed on the NYSE, in charge of SOX internal controls in the preparation of financial statements and, tax and special projects. From 1998 to 2005 she served as senior manager at Kesselman & Kesselman, a certified public accountants firm in Israel, which is a member of the international PriceWaterhouseCoopers Accountants firm. Ms. Baytel is a certified public accountant and holds a B.A. in economics and accountancy from the Tel Aviv University and an M.B.A. from the Hebrew University.

Amos Shapira has served as our President and Chief Executive Officer since 2005. From 2002 to 2005, Mr. Shapira served as Chief Executive Officer of El Al Israel Airlines Ltd. From 1993 to 2002, he served as Chief Executive Officer of Hogla-Kimberly Ltd., a company owned by Kimberly-Clark USA. He joined the board of directors of Elron Electronic Industries Ltd. in 2006. Mr. Shapira holds an M.Sc. in industrial administration from the Technion, Israel Institute of Technology and a B.A. in economics from the University of Haifa.

Tal Raz has served as our Chief Financial Officer since 2005. From 2002 to 2005, Mr. Raz served as Chief Financial Officer of Elron Electronic Industries Ltd. From 2001 to 2002, he served as the President and Chief Executive Officer of Elbit Ltd. From 1997 to 2001, he served as Elbit's Chief Financial Officer, having previously served in the same capacity at Agentsoft Ltd. and Paul Winston Corporation. Prior to that, he was a senior auditor at Deloitte & Touche's New York office. Until January 2007, Mr. Raz served as a director of NetVision Ltd. He is a member of the steering committee of the Israeli CFO Forum and is a certified public accountant. He holds a B.A. in accounting and business administration and an M.B.A. in business administration, from the City University of New York.

Adi Cohen has served as our Vice President of Marketing since 2006. From 2003 to 2006, Mr. Cohen served as marketing manager of Shufersal Ltd. From 2002 to 2003, he served as Chief Executive Officer of ERN Israel Ltd. From 1998 to 2003, he served as marketing manager of Partner Communications Company Ltd. Mr. Cohen holds a B.A. in economics and an M.B.A., both from the Hebrew University.

Eliezer (Lipa) Ogman has served as our Chief Technology Officer since 2000. From 1997 to 2000, Mr. Ogman served as our Vice President of Engineering and Network Operation, and from 1994 to 1997 he served as manager of our network design department. Prior to joining us, he served in the signal, electronics and computer corps of the Israel Defense Forces, reaching the rank of lieutenant colonel. Mr. Ogman holds a B.Sc. in Electrical Engineering from the Technion, Israel Institute of Technology, an M.B.A. in business administration and an M.Sc. in electrical engineering from Tel Aviv University.

Isaiah Rozenberg has served as our Vice President of Engineering and Network Operation since 2005. From 2000 to 2005, Mr. Rozenberg served as manager of our radio and switch engineering department. Mr. Rozenberg holds a B.Sc. and an M.Sc. in electrical and electronics engineering from Ben-Gurion University of the Negev.

Itamar Bartov has served as our Vice President of Executive and Regulatory Affairs since 2005. From 2004 to 2005, Mr. Bartov served as Vice President of Customer Services of El Al Israel Airlines Ltd., and from 2002 to 2004 he served as El Al's Corporate Secretary. From 2000 to 2002, he served as the Israel Postal Authority's Vice President of Business Development in Overseas Commerce and from 1996 to 2000 he served as the Israel Postal Authority's Vice President of Planning and Control. From 1993 to 1996, he served as senior advisor to the Minister of Communications. Mr. Bartov holds an L.L.B. from the Hebrew University in Jerusalem.

Refael Poran has served as our Vice President of Business Customers since 2006. From 1992 to 2004, Mr. Poran served as Chief Executive Officer of Adanet Communications Ltd. From 2005 to 2006, he served as head of the information technology section of the Haifa Port Company Ltd. Mr. Poran holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology.

Meir Barav has served as our Vice President of Sales and Services since 2005. From 2001 to 2005, Mr. Barav served as Vice President of Operations and Logistics of D.B.S. Satellite Services (1998) Ltd. From 1997 to 2000, he served as Vice President of Sales and Logistics of Strauss Ice Creams Ltd.. Mr. Barav holds a B.A. in economics and statistics from the Open University.

Ronit Ben-Basat has served as our Vice President of Human Resources since 2004. From 1999 to 2004, Ms. Ben-Basat served in various positions for Cisco Systems in Israel, Europe and San-Jose, California, as a senior human resources manager. From 1991 to 1999, she served as human resources and finance manager of LSI Logic. Ms. Ben-Basat holds a B.A. in social work and an M.Sc. in organizational development management, both from Tel Aviv University, and she also completed an executive M.B.A. program at Cisco Systems, through INSEAD, France and IMD, Switzerland.

Amos Maor has served as our Vice President of Operations and Supply Chain since 2004. From 2002 to 2004, Mr. Maor served as manager of Supply Chain of Elite Industries Ltd., and from 2000 to 2002, he served as manager of Elite's sales division headquarters. Mr. Maor holds a B.Sc. in industry and management engineering from the Technion, Israel Institute of Technology.

Liat Menahemi Stadler has served as our General Legal Counsel and Corporate Secretary since 2006. From 2000 to 2006, Ms. Menahemi Stadler served as head of the technology and general purchasing division of our legal department. She has been a member of our legal department since 1998. Ms. Menahemi Stadler holds an LL.B. and a B.A. in English and French language and literature, both from the University of Haifa.

Gil Ben-Itzhak has served as our Controller since 2006. From 2003 to 2006, Mr. Ben-Itzhak served as Chief Financial Officer of Paul Winston-Eurostar LLC in New York. From 2002 to 2003, he served as Chief Financial Officer of Elron Telesoft Ltd. and from 1996 to 2002, he served as Controller of Elbit Ltd. Mr. Ben-Itzhak is a certified public accountant and holds a B.A. in accounting and economics from the University of Haifa.

B. COMPENSATION

Executive Officer and Director Compensation

The aggregate direct compensation we paid to all our executive officers and directors as a group (24 persons) for 2008 was approximately NIS 20.5 million, of which approximately NIS 8.5 million relates to 2007 bonuses paid in 2008 and approximately NIS 1.9 million was set aside or accrued to provide for pension, retirement, severance or similar benefits. These amounts do not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses and benefits commonly reimbursed or paid by companies in Israel. In addition, we recorded the sum of approximately NIS 19.8 million in 2008, as a compensation cost related to the options granted to all our executive officers and the Chairman of the board of directors under the share incentive plan.

We pay no cash compensation to our directors who are affiliated with DIC for their services as directors, but we pay DIC NIS 2.0 million per year for management services. We pay Shlomo Waxe, our independent director, a monthly director's fee of $3,000 plus Israeli value-added tax. Each of our two external directors are entitled to a director's fee in the

amount of NIS 100,000 (approximately $26,000) per year and NIS 3,000 (approximately $780) per meeting, payable in accordance with the regulations promulgated under the Israeli Companies Law, as adjusted for changes in the Israeli CPI.

Employment Agreement of Amos Shapira

Mr. Amos Shapira, our President and Chief Executive Officer, is entitled to a gross monthly salary of NIS 120,000, linked to the Israeli CPI. He is also entitled to a company car, the use of a cellular phone and to reimbursement of incidental private expenses in the amount of NIS 9,000 per year. In June 2008 our board of directors amended Mr. Shapira's employment agreement with a retroactive effect to January 1, 2008, and determined that Mr. Shapira is entitled to a fixed bonus equal to six month's salary per year, linked to Israeli CPI, in respect of which no social benefits are accrued and an annual bonus based on our annual profits that shall not exceed NIS 2.78 million. Mr. Shapira is also entitled to participate in a share option plan, which was adopted in September 2006. Mr. Shapira's agreement contains provisions for vacation days, sick leave, managers' insurance and an education fund. The agreement is for an unspecified period of time and can be terminated by either party with advance notice of three months. Mr. Shapira will continue to receive his salary and benefits for a period of nine months after termination by either party, unless we terminate the agreement for cause. The aggregate monthly cost to us of Mr. Shapira's employment in 2008 amounted to approximately NIS 182,000 (approximately $47,900). In addition, in 2008, we paid Mr. Shapira a bonus in the amount of NIS 3.53 million and recorded an aggregate yearly expense of NIS 5.2 million in relation to the options granted to Mr. Shapira under the share incentive plan.

C. BOARD PRACTICES

Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Israeli Companies Law, 1999, or the Companies Law, relating to such matters as external directors, the audit committee and the internal auditor. These matters are in addition to the requirements of the New York Stock Exchange and other relevant provisions of U.S. securities laws. Under the New York Stock Exchange rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable New York Stock Exchange requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. We follow the Companies Law, the relevant provisions of which are summarized in this annual report, and comply with the New York Stock Exchange requirement to solicit proxies from our shareholders in respect of each meeting of shareholders.

For a summary of the significant differences between our corporate governance practices as a foreign private issuer and those required of U.S. domestic companies under NYSE Listing Standards see "Item 16G – Corporate Governance".

Under the Companies Law, our Board of Directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations of the Companies Law , that our Board of Directors should have. In determining the number of directors required to have such expertise, the Board of Directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our Board of Directors has determined that we require at least two directors with the

requisite financial and accounting expertise and that Messrs. Dankner, Erel, Manor, Bigger, Cohen, Bronshtein and Gavrieli have such expertise. The Companies Law and the regulations promulgated thereunder also require that at least one of our External Directors has financial and accounting expertise and consider a person who is an audit committee independent financial expert according to a foreign law, to comply with that requirement. Our Board of Directors has determined that Ms. Ronit Baytel qualifies as an "audit committee financial expert" as defined by the SEC in Item 16.A of Form 20-F.

Board of Directors and Officers

Our Board of Directors currently consists of twelve directors, including three independent directors under the rules of the Sarbanes-Oxley Act applicable to audit committee members, of which two also qualify as external directors under the Companies Law. Eight of our current directors, including the independent directors, were elected at our annual shareholders meeting held in August 2008. The external directors were appointed for an initial period of three years. Two additional directors, Messrs. Dankner and Manor, were appointed by DIC, as founding shareholder, in accordance with our license and articles of association's requirement that at least 20% of our directors be appointed by Israeli citizens and residents from among our founding shareholders. Our articles of association provide that we must have at least five directors.

Each director (other than external directors and directors required to be appointed by Israeli citizens and residents from among our founding shareholders) will hold office until the next annual general meeting of our shareholders following his or her election. The approval of at least a majority of the voting rights represented at a general meeting and voting on the matter is generally required to remove any of our directors from office (other than external directors and directors required to be appointed by Israeli citizens and residents from among our founding shareholders), provided that directors appointed by the Board of Directors may also be removed by the Board of Directors. A majority of our shareholders at a general meeting may elect directors or fill any vacancy, however created, in our Board of Directors (other than external directors and directors required to be appointed by Israeli citizens and residents from among our founding shareholders). In addition, directors, other than an external director or a director required to be appointed by Israeli citizens and residents from among our founding shareholders, may be appointed by a vote of a majority of the directors then in office.

Our articles of association provide, as allowed by Israeli law, that any director may, by written notice to us, appoint another person who is not a director to serve as an alternate director (subject to the approval of the chairman of the Board of Directors; and in the case of an appointment made by the chairman, such appointment shall be valid unless objected to by the majority of other directors) and may cancel such appointment. The term of appointment of an alternate director is unlimited in time and scope unless otherwise specified in the appointment notice, or until notice is given of the termination of the appointment. No director currently has appointed any other person as an alternate director. The Companies Law stipulates that a person who serves as a director may not serve as an alternate director except under very limited circumstances. An alternate director has the same responsibility as a director.

Each of our executive officers serves at the discretion of our Board of Directors and holds office until his or her successor is elected or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

External Directors

Qualifications of external directors

Companies incorporated under the laws of the State of Israel whose shares are listed on a stock exchange are required by the Companies Law to appoint at least two external directors. External directors are required to possess professional qualifications as set out in regulations promulgated under the Companies Law. The appointment of our external directors was approved by our shareholders in May 2007. The Companies Law provides that a person may not be appointed as an external director if the person, or the person's relative, partner, employer or any entity under the person's control, has or had during the two years preceding the date of appointment, any affiliation with the company or any entity controlling, controlled by or under common control with the company.

The term affiliation includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder, excluding service as a director in a private company prior to its initial public offering if such director was appointed in order to serve as an external director following the offering.

The term "office holder" is defined in the Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, any other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions, without regard to such person's title. Each person listed above under "Item 6.A - Directors and Senior Management," except Gil Ben-Itzhak, is an office holder for this purpose.

No person may serve as an external director if the person's position or other business interests creates, or may create, a conflict of interest with the person's responsibilities as a director or may otherwise interfere with the person's ability to serve as a director. If at the time an external director is appointed all current members of the board of directors are of the same gender, then that external director must be of the other gender.

Until the lapse of two years from termination of office, a company may not appoint an external director as an office holder and cannot employ or receive services from that person for pay, either directly or indirectly, including through a corporation controlled by that person.

Election of external directors

External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- at least one-third of the shares of non-controlling shareholders voted at the meeting vote in favor of the election of the external director; or

- the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed 1% of the aggregate voting rights in the company.

The initial term of an external director is three years and he or she may be reelected to one additional term of three years. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee and the board of directors confirm that, in light of the external director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to the company. An external director may only be removed by the same percentage of shareholders as is required for his or her election, or by a court, and then only if the external director ceases to meet the statutory qualifications or violates his or her duty of loyalty to the company. If an external directorship becomes vacant, a company's board of directors is required under the Companies Law to call a shareholders' meeting promptly to appoint a new external director.

Each committee of a company's board of directors that has the right to exercise a power delegated by the board of directors is required to include at least one external director, and the audit committee is required to include all of the external directors. An external director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided as an external director.

Israeli-Appointed Directors

Our license requires, and our articles of association provide, that at least 20% of our directors will be appointed and removed by shareholders who are Israeli citizens and Israeli residents from among our founding shareholders. If our Board of Directors is comprised of 14 directors or less, the Israeli shareholders will be entitled to appoint two directors, and if our Board of Directors is comprised of between 15 and 24 directors, the Israeli shareholders will be entitled to appoint three directors. Our articles of association provide that DIC, as founding shareholder, is responsible for complying with the requirement under our license that Israeli citizens and residents from among our founding shareholders hold at least 20% of our outstanding shares, and that so long as DIC so complies, it will be entitled to appoint and remove these directors.

Board Committees

Our Board of Directors has established an audit committee, cost analysis committee, option committee and a security committee.

Audit committee

Under the Companies Law, the board of directors of a public company must establish an audit committee. The audit committee must consist of at least three directors and must include all of the company's external directors. The audit committee may not include the chairman of the board, any director employed by the company or providing services to the company on an ongoing basis, a controlling shareholder or any of a controlling shareholder's relatives. The members of the audit committee are also required to meet the independence requirements established by the SEC in accordance with the requirements of the Sarbanes-Oxley Act..

Our audit committee provides assistance to our Board of Directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting and internal control functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. Under the Companies Law, the audit committee is required to identify deficiencies in the management of the company, including by consulting with the internal auditor or the independent accountants, and recommending remedial actions to the board of directors, and is responsible for reviewing and approving certain related party transactions, as described below. The audit committee may not approve such a related party transaction unless at the time of approval the two external directors were serving as members of the audit committee and at least one of them was present at the meeting at which the approval was granted.

Our audit committee is composed entirely of independent members (and includes all the external directors)- Messrs. Joseph Barnea (chairman), Shlomo Waxe and Ronit Baytel. Our board of directors determined Ms. Ronit Baytel to be qualified to serve as an "audit committee financial expert" as defined by the SEC's rules.

Cost analysis committee

Our cost analysis committee reviews our costs and recommends ways to achieve cost efficiency in our activities to our Board of Directors. Our cost analysis committee consists of Messrs. Bronshtein (Chairman) from August 2008 (until his retirement from our Board of Directors in August 2008 Mr. Lieder served as Chairman.), Erel, Cohen, Livnat, Bisker, Waxe and Barnea.

Option committee

Our option committee administers the issuance of options under our 2006 Share Incentive Plan to our employees who are not office holders, as well as any actions and decisions necessary for the ongoing management of the plan. Our option committee consists of Messrs. Erel (Chairman), Dankner, Livnat and Barnea.

Security committee and observer

Our security committee, which we were required to appoint once we became a public company pursuant to our license, deals with matters concerning state security. Only directors who have the requisite security clearance by Israel's General Security Services may be members of this committee. The committee is required to be comprised of at least four members, including at least one external director. In addition, the Minister of Communications is entitled under our license to appoint a state employee with security clearance to act as an observer in all meetings of our Board of Directors and its committees. Such an observer was appointed in February 2008. Our security committee consists of Messrs. Waxe, Bisker Cohen and Barnea.

Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor nominated by the audit committee. The role of the internal auditor is to examine whether a company's actions comply with applicable law and orderly business

procedure. Under the Companies Law, the internal auditor may not be an interested party or an office holder, or a relative of any of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. An interested party is generally defined in the Companies Law as a 5% or greater shareholder, any person or entity who has the right to designate one director or more or the chief executive officer of the company or any person who serves as a director or as the chief executive officer. Our internal auditor is Mr. Eli Nir, CPA.

Approval of Specified Related Party Transactions under Israeli Law

Fiduciary duties of office holders

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company. The duty of care requires an office holder to act with the degree of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care includes a duty to use reasonable means, in light of the circumstances, to obtain:

- information on the appropriateness of a given action brought for his or her approval or performed by virtue of his or her position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder includes a duty to act in good faith and for the best interests of the company, including to:

- refrain from any conflict of interest between the performance of his or her duties in the company and his or her other duties or personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or herself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

Personal interests of an office holder

The Companies Law requires that an office holder disclose any personal interest that he or she may have and all related material information known to him or her relating to any existing or proposed transaction by the company promptly and in any event no later than the first meeting of the board of directors at which such transaction is considered. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of these people.

Under the Companies Law, an extraordinary transaction is a transaction:

- other than in the ordinary course of business;
- that is not on market terms; or

- that is likely to have a material impact on the company's profitability, assets or liabilities.

Under the Companies Law, once an office holder complies with the above disclosure requirement, the transaction can be approved, provided that it is not adverse to the company's interest. A director who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit committee, will generally not be present at this meeting or vote on this matter unless a majority of the directors or members of the audit committee have a personal interest in the matter. If a majority of the directors have a personal interest in the matter, the matter also generally requires approval of the shareholders of the company. Under the Companies Law, unless the articles of association provide otherwise, a transaction with an office holder, or a transaction with a third party in which the office holder has a personal interest, requires approval by the board of directors. If it is an extraordinary transaction or an undertaking to indemnify or insure an office holder who is not a director, audit committee approval is required, as well. Arrangements regarding the compensation, indemnification or insurance of a director require the approval of the audit committee, board of directors and shareholders, in that order. Our articles of association provide that a non-extraordinary transaction with an office holder, or with a third party in which an office holder has a personal interest, may be approved by our Board of Directors, by our Audit Committee or, if the transaction involves the provision of our communications services and equipment or involves annual payments not exceeding NIS 250,000 per transaction, by our authorized signatories.

Personal interests of a controlling shareholder

Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company. Accordingly, DIC, and entities and persons that directly or indirectly control DIC, are considered to be our controlling shareholders. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder or his or her relative, who is an employee or director, require the approval of the audit committee, the board of directors and a majority of the shareholders of the company. In addition, the shareholder approval must fulfill one of the following requirements:

- at least one-third of the shareholders who have no personal interest in the transaction and who vote on the matter vote in favor of the transaction; or

- the shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than 1% of the voting rights in the company.

Duties of shareholders

Under the Companies Law, a shareholder has a duty to refrain from abusing his or her power in the company and to act in good faith in exercising its rights in, and performing its obligations to the company and other shareholders, including, among other things, voting at general meetings of shareholders on the following matters:

- an amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger; and
- approval of related party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who knows that its vote can determine the outcome of a shareholders' vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder or holds any other right in respect of the company, is required to act with fairness towards the company. The Companies Law does not describe the substance of this duty except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

Approval of Private Placements

Under the Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to 20% or more of the company's outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital or voting rights or that will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital or voting rights.

D. EMPLOYEES

Our ability to achieve our strategic goals largely depends on our employees. Consequently, we strive to recruit the most suitable candidates for each position, to give our employees the best training needed to qualify them for their tasks within our organization and aim to keep them satisfied while being productive and efficient. We implement a comprehensive review system that periodically analyzes our employees' performance in order to improve their performance and in order to enable us to properly compensate, retain and promote our best employees. Since we are committed to provide the best service to our subscribers, approximately 77% of our work force is engaged in customer facing positions.

The numbers and breakdowns of our full-time equivalent employees as of the end of the past three years are set forth in the following table:

	Number of Full-Time Equivalent Positions		
Unit	**December 2006****	**December 2007****	**December 2008**
Management and headquarters	32	34	35
Human resources	44	46	49
Marketing	73	74	73

Unit	Number of Full-Time Equivalent Positions		
	December 2006**	December 2007**	December 2008
Customers*	2,597	3,709	3,310
Finance	120	113	121
Technologies	700	654	718
Total	3,566	4,630	4,306

* Includes the customer facing units: business customers, sales and services, operations and supply chain. During 2006 some of the functions of some of the units above (such as security, purchasing and administration departments and logistic teams from other units) were transferred to the customer facing units.
**Including an estimated number of 114 and 30 higher cost temporary workers, most of whom belonged to the Technologies unit at December 2006 and 2007, respectively.

Israeli labor laws govern the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days and other conditions of employment. Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment. Commencing in October 2008, Israeli law requires us to hire certain workers retained through subcontractors who provided us services for a certain period. We are complying with this obligation. In addition, commencing in January 2008, under an order issued by the Ministry of Industry, Commerce and Labor, all Israeli employers are obligated to contribute to a pension plan amounts equal to a certain percentage of the employee's wages, for all employees, after a certain minimum period of employment. We are complying with this obligation. For those of our employees who are entitled to a pension arrangement according to their employment agreement, we fund future severance pay obligations by contributing to managers' insurance or other pension arrangements in the amount of 8.3% of the employee's wages. We have no unfunded liability in respect of these employees. Under that order, additional employees are entitled to contribution to a pension plan, which shall increase gradually until 2013 and up to 5% of the employee's wages, with additional identical contribution for severance pay. A provision in our financial reports covers severance pay to those employees who were not entitled to managers' insurance or other pension arrangements or for the balance between future severance pay according to the law and the contribution for severance payment, made according to said order. Furthermore, we and our employees are required to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Such amounts also include payments by the employee for health insurance. The total payments to the National Insurance Institute are equal to approximately 17.43% of an employee's wages (up to a specified amount), of which the employee contributes approximately 12% and the employer contributes approximately 5.43%.

We enter into personal employment agreements with our employees on either a monthly (in most cases, full-time positions) or hourly basis. Employment agreements with most of our employees are at will. Substantially all of our employees have signed non-disclosure and non-competition agreements, although the enforceability of non-competition agreements is limited under Israeli law.

Our employee compensation structure is aimed at encouraging and supporting employee performance towards enabling us to meet our strategic goals. Approximately 3,400 of our employees are entitled to performance-based incentives, which are granted mainly to customer-facing personnel, such as sales and service employees. Moreover, substantially all employees, with the exception of customer service representatives who are eligible to

additional compensation based on individual performance, are entitled to an annual bonus based on our overall performance, subject to the discretion of our Board of Directors. We intend to pay these employees a yearly bonus for the year 2008 in an aggregate amount of approximately NIS 52 millions. We also contribute funds on behalf of some of our employees to an education fund.

We have entered into agreements with a number of manpower agencies and programming companies under which they provide us with temporary workers.

Our employees are not represented by any labor union. Since our inception, we have not experienced labor-related work stoppages and believe that our relations with our employees are good.

E. SHARE OWNERSHIP

As of December 31, 2008, one of our directors, Mr. Nochi Dankner may be deemed to beneficially own 51,555,091, or approximately 52.42%, of our ordinary shares. 51,450,000 ordinary shares of these are beneficially owned by DIC, of which Mr. Dankner is the Chairman of the board of directors and 105,091 ordinary shares are held by indirect subsidiaries of IDB Development (of which Mr. Dankner is the Chairman of the board of directors), for their own account. Mr. Dankner is also a controlling shareholder, the Chairman of the board of directors and Chief Executive Officer of IDB. IDB Development, IDB, Mr. Dankner and each of our other directors who are affiliated with IDB or DIC, disclaim beneficial ownership of such shares.

Except as described above, none of our executive officers or directors beneficially owns 1% or more of our outstanding ordinary shares.

2006 Share Incentive Plan

In September 2006, our Board of Directors approved an option plan for our employees, directors, consultants and sub-contractors and to those of our affiliates and our shareholders' affiliates. The plan has an initial pool of 2,500,000 options or restricted stock units, or RSUs and is intended to qualify for capital gains tax treatment under Section 102 of the Israeli Income Tax Ordinance.

Under the plan, our Board of Directors (or an option committee to which such authority may be delegated by our Board of Directors) is authorized to determine the terms of the awards, including the identity of grantees, the number of options or RSUs granted, the vesting schedule and the exercise price.

The options / RSUs have a term of six years and vest in four equal installments on each of the first, second, third and fourth anniversary of the date of grant. Under the plan, unvested options / RSUs terminate immediately upon termination of employment or service. The plan, as amended in August 2008, defines acceleration events of options/ RSUs granted, including a merger, a consolidation, a sale of all or substantially all of our consolidated assets, or DIC ceasing to control (as the term "control" is defined in the Israeli Securities Law; namely the ability to direct a company's activities) us (previously - upon a decrease in DIC's share ownership to less than 50.01% of our outstanding share capital). The plan terminates upon the earlier of ten years from its adoption date or the termination of all outstanding options / RSUs pursuant to an acceleration event. In August 2008, we amended the option plan and the terms of our outstanding options as follows: (1) the definition of

corporate transactions triggering accelerated vesting of the options, was changed as detailed above; (2) we are required to provide the grantees with a ten day period to exercise the options upon the occurrence of a corporate transaction. An additional change was approved only in regards to options already granted prior to the adoption of the amendment: when a grantee is dismissed without cause, an additional period of up to six (6) months from the date of dismissal will be allowed for vesting of the third or fourth portions of the options to occur.

In October and November 2006, we granted options to purchase an aggregate of 2,414,143 ordinary shares at an exercise price of $12.60 per share on the terms set forth above. Among those grants were options to purchase up to 450,000 ordinary shares to each of Mr. Ami Erel, our Chairman of the Board of Directors, and Mr. Amos Shapira, our Chief Executive Officer. The balance of those grants was made to our officers and senior employees. Distribution of cash dividends before the exercise of these options reduces the exercise price of each option by an amount equal to the gross amount of the dividend per share distributed. In March 2007, we granted options to purchase an aggregate of 30,786 ordinary shares at an exercise price of $12.60 per share to certain of our senior employees, under the terms of the plan. In August 2008, we granted options to purchase an aggregate of 27,500 ordinary shares at an exercise price of $25 per share to certain of our senior employees, under the terms of the plan.

In November 2008, such persons, including our Chairman of the Board of Directors, our Chief Executive Officer and our officers, entered into an agreement to sell to a financial institution an aggregate of 785,534 of our shares, constituting approximately 0.8% of our issued share capital, issued upon their exercise of vested options. We were informed that the purchaser had intended to place such shares for sale outside the United States to non-US investors.

As of December 31, 2008, substantially all vested options, which constitute approximately half of the amount of options granted, including those of Messrs. Ami Erel and Amos Shapira, were exercised. As of December 31, 2008, an aggregate of 1,274,863 ordinary shares are issuable upon exercise of options according to the terms above. However, the terms of the 2006 Share Inventive Plan provide for a net exercise mechanism, the result of which is to require us to issue a smaller number of ordinary shares than represented by the outstanding options. Unless the Board of Directors otherwise approves, the number of ordinary shares issuable by us upon the exercise of an option will represent a market value that is equal to the difference between the market price of the ordinary shares and the option exercise price of the exercised options, at the date of exercise.

In March 2007, we filed a registration statement on Form S-8 under the Securities Act covering all ordinary shares subject to outstanding options or issuable pursuant to our 2006 Share Incentive Plan. Shares registered under this Form S-8 registration statement are available for sale in the open market, subject to Rule 144 volume limitations applicable to affiliates and vesting restrictions.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of our shares as of December 31, 2008, by each person, or group of affiliated persons, known to us to be the beneficial owner of 5% or more of our outstanding shares.

In accordance with the rules of the SEC, beneficial ownership includes voting or investment power with respect to securities and includes any shares issuable pursuant to options that are exercisable within 60 days of December 31, 2008. Any shares issuable pursuant to options are deemed outstanding for computing the percentage of the person holding such options but are not outstanding for computing the percentage of any other person. The percentage of beneficial ownership for the following table is based on 98,349,312 ordinary shares outstanding as of December 31, 2008. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, our major shareholders do not have different voting rights and the persons named in the table have sole voting and investment power with respect to all ordinary shares held by them.

	Shares Beneficially Owned	
Name of Beneficial Owner	**Number**	**Percent**
Discount Investment Corporation Ltd.*	51,450,000	52.31%
Massachusetts Financial Services Company**	4,923,415	5.01%
Directors and executive officers as a group (23 persons)***	51,555.091	52.42%

* Includes 21,711,645 held by DIC directly, 24,375,855 ordinary shares held by two wholly-owned subsidiaries of DIC (namely, PEC Israel Economic Corporation, a Maine corporation, and DIC Communication and Technology Ltd., an Israeli company) and 5,362,500 ordinary shares, representing approximately 5.45% of our issued and outstanding shares, held by four shareholders whose voting rights are vested in DIC. DIC is a majority-owned subsidiary of IDB Development Corporation Ltd., or IDB Development, which in turn is a majority-owned subsidiary of IDB. IDB, IDB Development and DIC are public Israeli companies traded on the Tel Aviv Stock Exchange.

IDB is controlled as follows:

- Ganden Holdings Ltd., or Ganden, a private Israeli company controlled by Nochi Dankner (who is also the Chairman of the board of directors and Chief Executive Office of IDB, the Chairman of the board of directors of IDB Development and DIC and one of our directors) and his sister Shelly Bergman, holds as of December 31, 2008, directly and through a wholly-owned subsidiary, approximately 55.26% of the outstanding shares of IDB;

- Shelly Bergman, through a wholly-owned company, holds as of December 31, 2008 approximately 4.23% of the outstanding shares of IDB;

- Avraham Livnat Ltd., or Livnat, a private company controlled by Avraham Livnat (one of whose sons, Zvi Livnat, is a director and Executive Vice President of IDB, a director and Deputy Chairman of the board of directors of IDB Development and a director of DIC, and another son, Shay Livnat, is one of our directors and a director of IDB Development) holds as of December 31, 2008, directly and through a wholly-owned subsidiary, approximately 13.43% of the outstanding shares of IDB; and

- Manor Holdings BA Ltd., or Manor, a private company controlled by Ruth Manor (whose husband, Isaac Manor, is one of our directors a director and Deputy Chairman of the board of directors of IDB, and a director of IDB Development and DIC, and their son Dori Manor is a director of IDB, IDB Development and DIC) holds as of December 31, 2008, directly and through a majority-owned subsidiary, approximately 13.42% of the outstanding shares of IDB.

Subsidiaries of Ganden, Livnat and Manor have entered into a shareholders agreement with respect to shares of IDB held by these subsidiaries, constituting 31.02%, 10.34% and 10.34%, respectively, of the outstanding shares of IDB for the purpose of maintaining and exercising control of IDB as a group. Their additional holdings in IDB are not subject to the shareholders agreement. The term of the shareholders agreement expires in May 2023.

Most of the foregoing holdings in IDB have been pledged to financial institutions as collateral for loans taken to finance the purchase of IDB's shares. Upon certain events of default, these financial institutions may foreclose on the loans and assume ownership of or sell such holdings.

Based on the foregoing, IDB and IDB Development (by reason of their control of DIC), Ganden, Manor and Livnat (by reason of their control of IDB) and Nochi Dankner, Shelly Bergman, Ruth Manor, and Avraham Livnat (by reason of their control of Ganden, Manor and Livnat, respectively) may be deemed to share with DIC the power to vote and dispose of our shares beneficially owned by DIC. Each of these entities (other than DIC) and persons disclaims beneficial ownership of such shares.

** According to a schedule 13-G filed by the shareholder on February 3, 2009 In the schedule the shareholder claims to have sole voting power only over 4,461,195 shares.

*** Includes the 51,450,000 shares held, directly or indirectly, by DIC and 105,091 shares held by indirect subsidiaries of IDB Development, for their own account, which may be deemed to be beneficially owned by Nochi Dankner by virtue of his control of IDB. Does not include an aggregate of 1,821,765 of our ordinary shares held, as of December 31, 2008, by members of the public through, among others, provident funds, mutual funds, pension funds, exchange traded funds, insurance policies and unaffiliated third-party client accounts, which are managed by subsidiaries of IDB. IDB and IDB Development, each of our directors who is affiliated with IDB or DIC disclaims beneficial ownership of such shares.

As of December 31, 2008, we had eight holders of record of our equity securities who are, to our knowledge, located in the United States. The shares held by these eight holders of record represent 82.02% of our outstanding ordinary shares. However, this number is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are located because approximately 69.19% of our ordinary shares were held of record by Cede & Co. for the account of the brokers or other nominees, including the Tel Aviv Stock Exchange; DIC's direct holding of approximately 22.08% is also held of record by Cede & Co; and PEC Israel Economic Corporation, a Maine corporation that is the holder of record of approximately 12.39% of our outstanding shares, is wholly owned by DIC.

Prior to September 2005, our initial principal shareholders were DIC, which indirectly held approximately 25% of our share capital, and BellSouth Corporation and the Safra brothers of Brazil, who indirectly held together approximately 69.5% of our share capital and held the voting rights in additional 5.5% of our share capital. DIC acquired the shares and voting rights of BellSouth and the Safra brothers in September 2005 and subsequently sold an aggregate of 16.0% of our share capital to financial investors in four transactions during 2006 and an additional approximately 19.5% of our share capital as part of our initial public offering in February 2007. Also as part of our initial public offering, Goldman Sachs International, then a 5% shareholder, sold 1% of our then issued and outstanding share capital. In 2007 and 2008, DIC sold in several additional transactions approximately 11.62% of our issued share capital to a financial institution which informed DIC at the time of its intention to place such shares for sale outside the United States to non-US investors

B. RELATED PARTY TRANSACTIONS

Agreements among Our Shareholders

In September 2005, DIC acquired the shares and voting rights in our company held indirectly by BellSouth and the Safra brothers. In 2006, DIC sold a portion of these shares in four transactions to six financial investors based on the price of the Safra transaction, with adjustments for dividends paid and certain additions to such price accrued during the period from the closing of the Safra transaction to the applicable sale transaction. The following summaries of the agreements between DIC and certain other shareholders relate only to provisions that survive the closing of our initial public offering.

Original 1997 shareholders agreements

Brian Greenspun, Daniel Steinmetz, Benjamin Steinmetz and Shlomo Piotrkowsky, who currently own of record, directly or indirectly, an aggregate of approximately 5.45% of our outstanding ordinary shares, granted the voting rights in these shares to BellSouth and the Safra brothers. These voting rights were assigned to DIC in connection with its acquisition of our control in September 2005. These minority shareholders are restricted from transferring these shares without the prior written consent of DIC and subject to a right of first refusal in favor of DIC. Each of these minority shareholders is also committed not to compete, directly or indirectly, with our cellular communications business in Israel so long as he is a shareholder and for a period of one year thereafter.

Goldman Sachs 2006 share purchase agreement and shareholders agreement

In 2006, DIC sold 5% of our then issued and outstanding share capital to Goldman Sachs International, an affiliate of Goldman Sachs & Co. In connection with this transaction, DIC undertook to cause us, subject to applicable law and contractual limitations, to adopt a dividend policy to distribute annually at least 75% of our annual net income, provided that any such distribution is not detrimental to our cash needs or to any plans authorized by our Board of Directors. The parties agreed that our Board of Directors would include at least seven directors, excluding external (independent) directors, with the chairman of our Board of Directors having a deciding vote on matters that are tied. For so long as DIC is our largest shareholder and holds at least 35% of our voting power, it was agreed that the parties would endeavor to cause the election of our chairman from among the directors nominated by the IDB group. The parties further agreed that they would use all their voting power to elect all nominees designated by the IDB group to our Board of Directors.

Any private transfer of shares by either party is subject to the transferee becoming a party to the shareholders agreement between the parties. The parties are prohibited from transferring their holdings to a person who is in direct competition with us in Israel, if such transfer may result in cancellation or revocation of any of our licenses, or to a person which is, or is controlled by, a resident or citizen of a country with which the State of Israel has no diplomatic relations or which is an adversary thereof. Goldman Sachs International agreed in principle that certain telecom holdings of the IDB group may be sold to us, subject to the conditions set forth in the agreement. We are not aware of any plan for such a transaction, which in any event would not be permitted by current regulatory restrictions.

As Goldman Sachs & Co. is no longer registered in our shareholders' register we do not know if it still holds any of our ordinary shares.

Migdal 2006 share purchase agreement

In 2006, DIC sold 4% of our then outstanding ordinary shares to Migdal Insurance Company Ltd. and two of its affiliates, or the Migdal shareholders. As part of this transaction, DIC granted the Migdal shareholders (i) a tag along right, in the event it sells shares resulting in it no longer being a controlling shareholder and (ii) an adjustment mechanism, in the event that, prior to April 3, 2008, it sells shares at a price per share which is less than the price of $14.71 per share paid by the Migdal shareholders (subject to adjustment for dividend distributions and other recapitalization events and a certain interest-like adjustment), according to which it will transfer to the Migdal shareholders, for no additional consideration, such number of shares that equals the price difference based on the lower price per share. In

return, DIC has the right to force the Migdal shareholders to sell their shares in a transaction in which DIC sells all of its shares to a purchaser outside the IDB group. To the best of our knowledge, no such rights or adjustments have materialized.

As the Migdal shareholders are no longer registered in our shareholders' register we do not know if they still hold any of our ordinary shares.

Bank Leumi 2006 share purchase agreement and First International Bank 2006 share purchase agreement

In 2006, DIC sold 5% of our then outstanding ordinary shares to Leumi and Co. Investment House Ltd. (an affiliate of Bank Leumi Le-Israel B.M.) and 2% of our then outstanding shares to Stocofin (Israel) Ltd. (an affiliate of the First International Bank of Israel Ltd.). As part of these transactions, DIC undertook to cause us, subject to applicable law, our license and contractual limitations, to adopt a dividend policy to distribute annually at least 75% of our annual net income, provided that any such distribution is not detrimental to our cash needs or to any plans authorized by our Board of Directors. Furthermore, DIC granted these entities (i) a tag along right in the event it sells shares resulting in the purchaser becoming a controlling shareholder and (ii) an adjustment mechanism, in the event that, prior to May 29, 2008, it sells shares or we issue shares (subject to certain exceptions) at a price per share lower than the price per share paid by these entities (which was $14.87 for Leumi and Co. Investment House Ltd. and $14.20 for Stocofin (Israel) Ltd.) (subject to adjustment for dividend distributions and other recapitalization events and a certain interest-like adjustment), according to which it will transfer to such other parties, for no additional consideration, such number of shares that equals the price difference based on the lower price per share. To the best of our knowledge, no such rights or adjustments have materialized.

As Leumi and Co. Investment House Ltd. And Stocofin (Israel) Ltd. are no longer registered in our shareholders' register, we do not know if they still hold any of our ordinary shares.

Relationship with IDB

As part of the issuance of our debentures in December 2005, January 2006 and May 2006, we sold NIS 176.7 million aggregate principal amount of our Series A and Series B Debentures to investors who are members of the IDB group. The terms of participation of our affiliates in all of these transactions were the same as those of unaffiliated parties.

As part of the issuance of our debentures in October 2007, we sold NIS 15 million aggregate principal amount of our Series C and Series D Debentures to investors who are members of the IDB group. As part of the issuance of additional Series C and Series D debentures in February 2008 we sold approximately NIS 48 million aggregate principal amount of Series C and Series D Debentures to investors who are members of the IDB group. The terms of participation of our affiliates in all of these transactions were the same as those of unaffiliated parties.

As of December 31, 2008, an aggregate amount of approximately NIS 255 million of our Series A, Series B, Series C and Series D Debentures were held by investors who are members of the IDB group and/or entities affiliated with IDB’s principal shareholders or officers.

As of December 31, 2008, an aggregate of 1,821,765 of our ordinary shares (in addition to the holdings set forth in the Beneficial Owners' table above) were held by members of the public through, among others, provident funds, mutual funds, pension funds, exchange traded funds, insurance policies and unaffiliated third-party client accounts, which are managed by subsidiaries of IDB.

In October 2006, we entered into an agreement with DIC, to benefit from the experience that DIC has in telecommunications and in the Israeli market generally, pursuant to which DIC provides us with services in the areas of management, finance, business and accountancy in consideration of NIS 2.0 million plus VAT per year. Among the services included are consulting and assistance on managerial, economic and accounting issues, such as the preparation of an annual budget, strategic plans and central business processes for us. In addition, the provision of employees and officers of DIC and its affiliates to be directors of Cellcom is included in the agreement. This agreement is for a term of one year and is automatically renewed for one-year terms unless either party provides 60 days' prior notice to the contrary.

In December 2007, we entered into an agreement for the sale of real estate in Modi`in to Bayside Land Corporation Ltd., a public company controlled by IDB. The transaction was approved by our audit committee, board of directors and shareholders meeting. The transaction was completed in 2008.

In the ordinary course of business, from time to time, we purchase, lease, sell and cooperate in the sale of goods and services, or otherwise engage in transactions with entities that are members of the IDB group and entities affiliated with IDB's principal shareholders or officers. We believe that all such transactions are on commercial terms comparable to those that we could obtain from unaffiliated parties

Registration Rights Agreement

In 2006, we entered into a registration rights agreement with DIC, two wholly-owned subsidiaries of DIC which are shareholders and six other shareholders. For a summary of the terms of the agreement, see "Item 10. Additional Information – C. Material Contracts."

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See Item 17.

Legal Proceedings

General

We are served from time to time with claims concerning various matters, including disputes with customers, commercial disputes with third parties with whom we do business

and disputes with government entities, including local planning and building committees and the Ministry of Communications. The disputes with customers include purported class actions regarding claims such as alleged overcharging of tariffs and interconnection fees, misleading representations, unlawful rounding of tariffs and call units, providing services not in compliance with applicable law, our license's requirements or with a subscriber's agreement. The following is a summary of our material litigation.

Two legislative changes, the adoption of the Israeli Class Actions Law in 2007 and the 2005 amendment to the Consumer Protection Law, include provisions that expand the causes of action for which a class of litigants may bring suit, including with regard to damages incurred prior to the effective dates of the law and the amendment, reducing the minimal requirements for certification of a class action suit and broadening and loosening the qualifications to be the leading plaintiff in a class action lawsuit. These laws have increased and may increase further, the number of requests for certification of class action lawsuits against us and have increased and may increase further, our legal exposure as a result of such class action lawsuits and our legal costs in defending against such suits. See "Item 3. Key Information – D. Risk Factors - We are exposed to, and currently are engaged in, a variety of legal proceedings, including class action lawsuits."

All amounts noted below are nominal and, in cases where the claim is approved, will be adjusted to reflect changes in the Israeli CPI and statutory interest, from the date that each claim was filed.

Based on advice of counsel, we believe it is more likely than not that substantially all the claims and disputes detailed below will be determined in our favor and accordingly, no provision has been made in the financial statements in respect of these claims and disputes. We have made a provision in the amount of NIS 10 millions, for the claim/s and dispute/s we are willing to settle and/or for which we cannot reach a conclusion that it is more likely than not that the claim/s and/ or dispute/s will be determined in our favor.

Purported class actions

In September 2000, a purported class action lawsuit was filed against us in the District Court of Tel-Aviv–Jaffa by one of our subscribers in connection with VAT charges in respect of insurance premiums and the provision of insurance services that were allegedly provided not in accordance with the law. In February 2006, the motion for certification as a class action was denied. In March 2006, an appeal was filed with the Supreme Court challenging the dismissal. In December 2008, the appeal was partially allowed and the claim was returned for further consideration by the District Court of certain issues determined by the Supreme Court. If the lawsuit is certified as a class action, the amount of the claim is estimated by the plaintiff to be NIS 402 million.

In August 2001, a purported class action lawsuit was filed against us in the District Court of Tel-Aviv–Jaffa by one of our subscribers in connection with our outgoing call tariffs on the "Talkman" (pre-paid) plan and the collection of a distribution fee for "Talkman" calling cards. In June 2004, the motion for certification as a class action was denied. In September 2004, this decision was appealed to the Israeli Supreme Court. In July 2007, the Israeli Supreme Court accepted a petition filed by both parties with mutual consent, in light of the Israeli Class Action Law, 2006, to resubmit the purported class action lawsuit for consideration in the District Court of Tel Aviv-Jaffa. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be NIS 135 million.

In December 2002, a purported class action lawsuit was filed against us (and another cellular operator) in the District Court of Tel-Aviv–Jaffa in connection with our incoming call tariff to subscribers of other operators when calling our subscribers during the period before the regulation of interconnect fees. In December 2008, the motion for certification as a class action was dismissed with prejudice In January 2009, an appeal was filed with the Supreme Court challenging the dismissal. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be NIS 1.6 billion.

In April 2003, a purported class action lawsuit was filed against us and two other cellular operators, with the District Court of Tel-Aviv–Jaffa in connection with our incoming SMS tariff to subscribers of other operators when sending SMS messages to our subscribers during the period before the regulation of SMS interconnect fees. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be NIS 90 million, without specifying the amount claimed from us individually.

In August 2003, a purported class action lawsuit was filed against us in the District Court of Tel-Aviv–Jaffa (and later transferred to the District Court of the Central Region) by one of our subscribers in connection with our method of rounding the rates of calls, our method of linking rates of calls to the consumer price index and an alleged unlawful approval of a certain rate that was approved by the Ministry of Communications in 1996. Following the amendment to the Consumer Protection Law in December 2005, the plaintiff filed an amended statement of its claim in March 2006, to which we have replied. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be NIS 150 million.

In August 2006, a purported class action lawsuit was filed against us (and two other cellular operators) in the District Court of Tel-Aviv–Jaffa by plaintiffs alleging to be subscribers of the defendants in connection with sums allegedly unlawfully charged for a segment of a call that was not actually carried out. If the lawsuit is certified as a class action, the total amount claimed is estimated by the plaintiffs as exceeding NIS 100 million without specifying the amount claimed from us individually.

In February 2007, a purported class action lawsuit was filed against us (and two other cellular operators) in the District Court of Tel-Aviv, by plaintiffs alleging to be subscribers of the defendants, in connection with sums that were allegedly overcharged in breach of the cellular operators' licenses, based on charge units larger than the charge units the defendants were allegedly authorized to charge under their licenses for calls initiated or received by the subscribers while abroad. If the lawsuit is certified as a class action, the total amount claimed from the cellular operators is estimated by the plaintiffs to be approximately NIS 449 million, of which approximately NIS 193.5 million is attributed to us.

In May 2007, a purported class action lawsuit was filed against us in the District Court of Tel-Aviv-Jaffa by two plaintiffs alleging to be our subscribers in connection with allegations that we unlawfully and in violation of our license raised our tariffs, in pricing plans that included a commitment to purchase certain services for a predefined period. If the lawsuit is certified as class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 875 million.

In November 2007, a purported class action lawsuit was filed against us in the District Court of the Central Region, by a plaintiff alleging to be our subscriber in connection with allegations that we have charged our subscribers for content services without obtaining their

specific consent, in a manner which complies with the provisions of our general license. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 432 million.

In December 2007, a purported class action lawsuit was filed against us (and two other cellular operators) in the District Court of Tel Aviv-Jaffa by plaintiffs alleging to be residing next to cell sites of the defendants which the plaintiffs allege were built in violation of the law. The plaintiffs allege that the defendants have created environmental hazards by unlawfully building cell sites and therefore demand that the defendants will compensate the public for damages (other than personal damages, such as depreciation of property and/or health related damages which are excluded from the purported class action), demolish existing unlawfully built cell sites and refrain from unlawfully building new cell sites. If the lawsuit is certified as a class action, the compensation claimed from the defendants (without any allocation of this amount among the defendants) is estimated by the plaintiffs to be NIS 1,000 million.

In March 2008, a purported class action lawsuit was filed against us in the District Court of Central Region by plaintiffs alleging to be our subscribers, in connection with allegations that we have unlawfully charged our subscribers for providing them with call details records. If the lawsuit is certified as a class action, the total amount claimed is estimated by the plaintiffs to be approximately NIS 440 million.

In April 2008, a purported class action lawsuit was filed against us in the District Court of Tel Aviv-Jaffa, by plaintiffs alleging to be our subscribers, connection with allegations that we overcharged certain subscribers entitled to rebates under their agreement with us, by miscalculating the rebate. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 100 million.

In May 2008, a purported class action lawsuit was filed against us (and two other cellular operators) in the District Court of Tel Aviv-Jaffa, by plaintiffs alleging to be subscribers of the defendants, in connection with allegations that the defendants have unlawfully charged their subscribers for certain failed calls attempted by the subscribers, while abroad. If the lawsuit is certified as a class action, the total amount claimed from all three defendants is estimated by the plaintiffs to be approximately NIS 50 million, without specifying the amount attributed to us.

In July 2008, a purported class action lawsuit was filed against us in the District Court of Tel Aviv-Jaffa, by a plaintiff alleging to be our subscriber, connection with allegations that we mislead and overcharge certain subscribers, in relation to airtime packages. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 72 million.

In July 2008, a purported class action lawsuit was filed against us in the District Court of Tel Aviv-Jaffa, by a plaintiff alleging to be our subscriber, connection with allegations that we mislead and unlawfully charge our subscribers for a certain automatic call completion service, even if not used. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 179 million.

Commercial and other disputes

In April 2005, a lawsuit was filed against us in the District Court of Tel-Aviv–Jaffa by one of our former dealers and importers for the amount of NIS 28 million (reduced for court fee purposes from approximately NIS 38 million), alleging that we have breached an agreement between the parties.

In January 2007, a lawsuit was filed against us in an arbitration proceeding for the amount of approximately NIS 35 million by a company that purchased cellular services from us in order to sell the services to its customers, alleging, among other things, that we have breached our agreements with the plaintiff and making claims concerning our conduct. We reject all claims made by the plaintiff against us.

There is a dispute between the Ministry of Communications and us with respect to the payment of fees for GSM and UMTS frequencies. The amount in dispute as of December 31, 2008 is approximately NIS 71 million (including interest and CPI linkage differences). Until a final decision on this matter, we deposited about half of the principal amount with the Ministry of Communications, but have not expensed the deposited sum in our financial statements. We have applied to the courts regarding this issue.

In December 2007, we were served with a petition filed with the Israeli High Court of Justice against the Ministry of Communications and another cellular operator, seeking to retroactively apply the amendment to the cellular operators' general license, effected September 2007, which prevents the cellular operators from offering subscribers calling plans using airtime charging units other than the basic airtime charging unit, or alternatively to retroactively cancel any charges which may be imposed on subscribers when transferring, before the lapse of a predetermined period, to calling plans based on the basic airtime charging unit. We and one other cellular operator were joined as formal respondents. The court has instructed only the Ministry of Communications to submit its response. In its response, the Ministry of Communications opposes the petition..

In a small number of instances, local planning and building committees that were sued for depreciation of property in accordance with Section 197 of the Planning and Building Law have attempted to join cellular operators, including us, as defendants to the claims despite the fact that the cellular operators (including us) in such cases did not provide indemnification letters to such planning and building committees.

Dividend Policy

In February 2006, our board of directors adopted a dividend policy to distribute each year at least 75% of our annual net income determined (in accordance with Israeli GAAP for periods until December 31, 2007 and in accordance with IFRS for periods commencing on or after January 1, 2008), subject to applicable law, our license and our contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. In March 2007, our Board of Directors resolved to distribute dividends within the boundaries of the February 2006 dividend policy and until resolved otherwise, on a quarterly basis. Our Board of Directors will consider, among other factors, our expected results of operation, including changes in pricing and competition, planned capital expenditure for technological upgrades and changes in debt service needs, including due to changes in interest rates or currency exchange rates, in order to reach its conclusion that a distribution of dividends will not prevent us from satisfying our existing and

foreseeable obligations as they become due. In addition, there is an agreement among the controlling shareholders of IDB, our ultimate parent company, to target a dividend distribution of at least 50% of its distributable gains each year. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to pay dividends at a ratio to net income that is less than that paid in the past. For example, our Board of Directors may determine that our cash needs for debt service, capital expenditures or operations may increase and that it would not be prudent to distribute dividends. Accordingly, shareholders should not expect that any particular amount will be distributed by us as dividends at any time, even if we have previously made dividend payments in such amount.

Our ability to pay dividends was previously subject to limitations under our credit facility, which was fully repaid and terminated in March 2008. Currently our ability to pay dividends is subject to the following limitations under Israeli law:

Israeli law provides that dividends may only be paid out of cumulative retained earnings or out of retained earnings over the prior two years, provided that there is no reasonable concern that the payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Further, our license requires that we and our 10% or more shareholders maintain at least $200 million of combined shareholders' equity. DIC's shareholders' equity was over NIS 4 billion (over $1.05 billion) at December 31, 2008.

We intend to declare dividends in NIS and convert them for payment in US$ (where applicable) based upon the daily representative rate of exchange as published by the Bank of Israel prior to the distribution date.

Prior to 2006, we had not distributed dividends. In 2006, we distributed dividends in the amount of NIS 3.83 billion ($1.01 billion), constituting substantially all of our retained earnings from inception to December 31, 2005. In 2007, we distributed dividends in the amount of NIS 655 million ($172 million). In March 2008, we distributed a dividend in the amount of approximately NIS 700 million ($184 million). In June 2008 we distributed a dividend in the amount of approximately NIS 258 million ($68 million). In September 2008 we distributed a dividend in the amount of approximately NIS 270 million ($71 million). In December 2008 we distributed a dividend in the amount of approximately NIS 302 million ($79 million). The dividends distributed in respect of 2007 and the first nine months of 2008 constituted approximately 95% of our net income (in accordance with Israeli GAAP for periods until December 31, 2007 and in accordance with IFRS for periods commencing on or after January 1, 2008) for the respective period and part of our retained earnings from earlier periods.

On March 1, 2009 our board of directors declared a cash dividend for the fourth quarter of 2008 of NIS 2.75 per share, or approximately NIS 270 million in the aggregate. The dividend for the fourth quarter of 2008 constitutes approximately 95% of our net income (in accordance with IFRS) for the quarter and a part of our retained earnings from earlier periods. The dividend per share that we will pay for the fourth quarter of 2008 does not reflect the level of dividends that may be paid for future quarterly periods, which can change at any time in accordance with the policy set out above.

B. SIGNIFICANT CHANGES

No significant change has occurred since December 31, 2008, except as otherwise disclosed in this annual report.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Trading in Israel

Our ordinary shares have traded on the Tel Aviv Stock Exchange under the symbol CEL since July 1, 2007. Our ordinary shares do not trade on any other trading market in Israel.

The following table sets forth, for the periods indicated, the reported high and low prices in NIS for our ordinary shares on the Tel Aviv Stock Exchange.

	High	Low
	NIS	NIS
Annually		
2007	119.45	85.02
2008	116.17	78.50
Quarterly		
2007*		
Third Quarter	98.88	85.02
Fourth Quarter	119.45	85.24
2008		
First Quarter	112.75	92.75
Second Quarter	114.13	101.66
Third Quarter	116.17	96.33
Fourth Quarter	106.52	78.50
Monthly		
2008		
September	109.54	96.33
October	106.42	95.43
November	106.52	83.76
December	91.50	78.50
2009		
January	87.00	80.20
February	88.91	83.85

* No information is provided regarding the first two quarters of 2007 since trading in our Ordinary Shares on the TASE commenced only on July 1, 2007.

On February 26, 2009, the closing price per share of our Ordinary Shares on the TASE was NIS 85.20.

Trading in the United States

Our ordinary shares have traded on the New York Stock Exchange under the symbol CEL since February 6, 2007.

The following table sets forth, for the periods indicated, the high and low prices in $ for our ordinary shares on The New York Stock Exchange.

	High $	Low $
Annually		
2007	29.50	14.53
2008	20.41	34.37
Quarterly		
2007		
First Quarter	15.9	14.57
Second Quarter	21.91	14.53
Third Quarter	22.05	19.54
Fourth Quarter	29.5	20.34
2008		
First Quarter	30.12	25.04
Second Quarter	33.71	27.59
Third Quarter	34.37	27.62
Fourth Quarter	29.36	20.41
Monthly		
2008		
September	30.21	27.62
October	29.36	25.6
November	27.57	21.81
December	23.38	20.41
2009		
January	22.63	20.07
February	22.08	20.00

On February 27, 2009, the closing price per share of our Ordinary Shares on the NSYE was $20.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares are listed on the New York Stock Exchange and Tel Aviv Stock Exchange under the symbol “CEL”

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Objects and Purposes

Our registration number with the Israeli registrar of companies is 51-1930125. Our object is to engage, directly or indirectly, in any lawful undertaking or business whatsoever as determined by our Board of Directors, including, without limitation, as stipulated in our memorandum of association.

Transfer of Shares

Fully paid ordinary shares are issued in registered form and may be freely transferred unless the transfer is restricted or prohibited by our articles of association, applicable law, our licenses, the rules of the SEC or the rules of a stock exchange on which the shares are traded. The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by our articles of association or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

According to our licenses, investors are prohibited from acquiring (alone or together with relatives or with other parties who collaborate on a regular basis) or transferring our shares, directly or indirectly (including a transfer by way of foreclosing on a pledge), in one transaction or a series of transactions, if such acquisition or transfer will result in a holding or transfer of 10% or more of any of our means of control, or from transferring any of our means of control if as a result of such transfer, control over our company will be transferred from one party to another, without the prior approval of the Ministry of Communications. Our specific licenses also require approval of the Minister of Communications before acquiring the ability to effect a significant influence over us. In this context, holding 25% of our means of control is presumed to confer significant influence. In addition, according to our licenses, if you hold more than 5% of our means of control, you may not hold, directly or indirectly, more than 5% of the means of control in Bezeq or another cellular operator in Israel (subject to certain exceptions) and may not serve as an office holder of one of our competitors, other than in specific circumstances and subject to the approval of the Ministry of Communications. For more details relating to these restrictions, please see “Item 4. Information on the Company – B. Business Overview – Government Regulations—Our Principal License” and our principal license, a convenience translation of which has been filed with the SEC. See "Item 19 – Exhibits". The holding and transfer restrictions under our licenses are posted on our website at www.cellcom.co.il under “Investor Relations – Corporate Governance – Company Profile - Legal & Corporate”

Voting

Holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders at a shareholder meeting. Shareholders may vote at shareholder meetings either in person, by proxy or by written ballot. Shareholder voting rights may be affected by the grant of special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. The Companies Law provides

that a shareholder, in exercising his or her rights and performing his or her obligations toward the company and its other shareholders, must act in good faith and in a customary manner, and avoid abusing his or her power. This is required when voting at general meetings on matters such as changes to the articles of association, increasing the company's registered capital, mergers and approval of related party transactions. A shareholder also has a general duty to refrain from depriving any other shareholder of their rights as a shareholder. In addition, any controlling shareholder, any shareholder who knows that its vote can determine the outcome of a shareholder vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder, is required to act with fairness towards the company. The Companies Law does not describe the substance of this duty, except to state that the remedies generally available upon a breach of contract will apply also in the event of a breach of the duty to act with fairness, and, to the best of our knowledge, there is no binding case law that addresses this subject directly. As required under our license, our articles of association provide that any holdings of our ordinary shares that contravene the holding or transfer restrictions contained in our license, which are summarized under "—Transfer of Shares" and "Item 4. Information on the Company – B. Business Overview - Government Regulations—Our Principal License," will not be entitled to voting rights. In addition, our license requires that as a condition to voting at any meeting of shareholders, in person or by proxy, each shareholder must certify that its holdings of our shares do not contravene the restrictions contained in our license.

Election of Directors

Our ordinary shares do not have cumulative voting rights for the election of directors. Rather, under our articles of association our directors (other than external directors and directors appointed by Israeli citizens and residents from among our founding shareholders) are elected at a shareholders meeting by a simple majority of our ordinary shares. As a result, the holders of our ordinary shares that represent more than 50% of the voting power represented at a shareholder meeting have the power to elect any or all of our directors whose positions are being filled at that meeting, subject to the special approval requirements for external directors described under "Item 6.A – Directors and Senior Management—External Directors" and the right of DIC to directly appoint 20% of our directors described under "Item 6.A – Directors and Senior Management—Israeli Appointed Directors." Directors may also be appointed for office by our Board of Directors until the next annual general meeting of shareholders.

Dividend and Liquidation Rights

Our board of directors may declare a dividend to be paid to the holders of ordinary shares on a pro rata basis. Dividends may only be paid out of our profits and other surplus funds, as defined in the Companies Law, as of our most recent financial statement or as accrued over the past two years, whichever is higher, or, in the absence of such profits or surplus, with court approval. In any event, a dividend is permitted only if there is no reasonable concern that the payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares on a pro rata basis. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Shareholder Meetings

We are required to convene an annual general meeting of our shareholders once every calendar year within a period of not more than 15 months following the preceding annual general meeting. Our board of directors is required to convene a special general meeting of our shareholders at the request of two directors or one quarter of the members of our Board of Directors or at the request of one or more holders of 5% or more of our share capital and 1% of our voting power or the holder or holders of 5% or more of our voting power. All shareholder meetings require prior notice of at least 21 days, or up to 35 days if required by applicable law or regulation. We provide at least 40 day advance written notice, in accordance with the NYSE's rules. The chairperson of our Board of Directors presides over our general meetings. Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting.

Quorum

Our articles of association provide that the quorum required for any meeting of shareholders shall consist of at least two shareholders present, in person or by proxy or written ballot, who hold or represent between them at least one-third of the voting power of our issued share capital. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or, if not set forth in the notice to shareholders, to a time and place set by the chairman of the meeting with the consent of the holders of a majority of the voting power represented at the meeting and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of at least two shareholders present, in person or by proxy or written ballot, unless the meeting was called pursuant to a request by our shareholders in which case the quorum required is the number of shareholders required to call the meeting as described under "—Shareholder Meetings."

Resolutions

An ordinary resolution at a shareholders meeting requires approval by a simple majority of the voting rights represented at the meeting, in person, by proxy or written ballot, and voting on the resolution. Under the Companies Law, unless otherwise provided in the articles of association or applicable law, all resolutions of the shareholders require a simple majority. A resolution for the voluntary winding up of the company requires the approval by holders of 75% of the voting rights represented at the meeting, in person or by proxy or written ballot, and voting on the resolution.

Modification of Class Rights

The rights attached to any class, such as voting, liquidation and dividend rights, may be amended by written consent of holders of a majority of the issued shares of that class, or by adoption of a resolution by a simple majority of the shares of that class represented at a separate class meeting.

Indemnification of Directors and Officers

Under the Companies Law, an Israeli company may not exempt an office holder from liability for breach of his duty of loyalty, but may exempt in advance an office holder from

liability to the company, in whole or in part, for a breach of his or her duty of care (except in connection with distributions), provided the articles of association of the company allow it to do so. Our articles of association allow us to do so.

Our articles of association provide that, subject to the provisions of the Companies Law, we may enter into a contract for insurance against liability of any of our office holders with respect to each of the following:

- a breach of his or her duty of care to us or to another person;
- a breach of his or her duty of loyalty to us, provided that the office holder acted in good faith and had reasonable grounds to assume that his or her act would not prejudice our interests;
- a financial liability imposed upon him or her in favor of another person concerning an act performed in the capacity as an office holder.

We maintain a liability insurance policy for the benefit of our officers and directors.

Our articles of association provide that we may indemnify an office holder against:

- a financial liability imposed on or incurred by an office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court concerning an act performed in his or her capacity as an office holder. Such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that the undertaking is limited to types of events which our Board of Directors deems to be foreseeable in light of our actual operations at the time of the undertaking and limited to an amount or criterion determined by our Board of Directors to be reasonable under the circumstances, and further provided that such events and amounts or criterion are set forth in the undertaking to indemnify;
- reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him or her and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or charged to him or her by a court, in proceedings instituted by us or on our behalf or by another person, or in a criminal indictment from which he or she was acquitted, or a criminal indictment in which he or she was convicted for a criminal offense that does not require proof of intent, in each case relating to an act performed in his or her capacity as an office holder.

We have undertaken to indemnify our directors, officers and certain other employees for certain events listed in the indemnification letters given to them. Excluding reasonable litigation expenses, as described above, the aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification

letters is limited to the amounts we receive from our insurance policy plus 30% of our shareholders' equity as of December 31, 2001, or NIS 486 million, and to be adjusted by the Israeli CPI.

The Companies Law provides that a company may not exempt or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his or her duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly;
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine or penalty levied against the office holder.

Under the Companies Law, any exemption of, indemnification of, or procurement of insurance coverage for, our office holders must be approved by our audit committee and our Board of Directors and, if the beneficiary is a director, by our shareholders.

Mergers and Acquisitions under Israeli Law

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to a merger have the transaction approved by its board of directors and a vote of the majority of its shares at a shareholders meeting. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that an acquisition of shares of a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must also be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted

in the acquirer becoming a 45% shareholder of the company. The special tender offer must be extended to all shareholders but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. The special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders who are not exempt from Israeli income tax under Israeli law or an applicable tax treaty. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies by certain shareholders are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, tax then becomes payable even if no actual disposition of the shares has occurred. For information regarding Israeli tax on the sale of our shares, please see "Item 10.E - Taxation—Israeli Tax Considerations—Capital Gains Tax on Sales of Our Ordinary Shares."

Anti-Takeover Measures under Israeli Law

The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred or additional rights to voting, distributions or other matters and shares having preemptive rights. We do not have any authorized or issued shares other than ordinary shares. In the future, if we do create and issue a class of shares other than ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association and to our memorandum, which requires the prior approval of a simple majority of our shares represented and voting at a shareholders meeting. Our articles of association provide that our Board of Directors may, at any time in its sole discretion, adopt protective measures to prevent or delay a coercive takeover of us, including, without limitation, the adoption of a shareholder rights plan.

C. MATERIAL CONTRACTS

For a description of our material suppliers, see "Item 4. Information on the Company – B. Business Overview – Network and Technology", "Item 4. Information on the Company

– B. Business Overview – Customer Care" and "Item 4. Information on the Company – B. Business Overview - Services and Products."

For a description of our debt agreements, see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service."

Registration Rights Agreement

Upon the sale of shares by DIC to Goldman Sachs International on March 15, 2006, we entered into a registration rights agreement with Goldman Sachs International, DIC and two other shareholders who are subsidiaries of DIC on customary terms and conditions. Upon the subsequent sales of shares by DIC to Migdal Insurance Company Ltd. and two of its affiliates, to Leumi & Co. Investment House Ltd. (an affiliate of Bank Leumi Le-Israel Ltd), and to Stocofin (Israel) Ltd. (an affiliate of the First International Bank of Israel Ltd.), these shareholders also joined the registration rights agreement. We refer to DIC, its two subsidiaries and the additional shareholders who are parties to the registration rights agreement as the registration rights holders. The shares eligible for registration under the agreement are ordinary shares held by the registration rights holders as of the respective dates they entered into the registration rights agreement and any additional ordinary shares such holders may thereafter acquire, so long as they are held by a registration rights holder or a "permitted transferee" (a person directly or indirectly controlling, controlled by or under common control with such registration rights holder) thereof. As of December 31, 2008, 46,087,500 ordinary shares, held by DIC directly and through its wholly owned subsidiaries, are entitled to registration rights as well as any additional shares still held, if held, by the other shareholders who joined the agreement.

Commencing August 9, 2008, the registration rights holders are entitled to one demand registration per 12-month period, so long as such request is initiated by registration rights holders of at least 3.25% of the then outstanding registrable securities and the demand refers to a minimum of 3% of our then outstanding share capital, subject to customary deferral rights. In addition, in connection with any public offerings that we initiate in the future, if we propose to register any of our securities for our own account or for the account of any of our shareholders other than in a demand registration or in a registration relating solely to an incentive plan, the registration rights holders have piggyback rights to include their shares subject to customary underwriters' cutback rights. In the case of a cut back, each registration rights holder that is not a member of the IDB group will be entitled to register registrable shares in an amount equal to its percentage holding of the aggregate number of registrable shares held by all registration rights holders wishing to participate in such registration, or, if such registration rights holder then holds more than 20% of its holdings as of the date it signed the registration rights agreement, registrable shares in an amount equal to twice its percentage holding of the aggregate number of registrable shares held by all registration rights holders wishing to participate in such registration. Members of the IDB group will be entitled to register a number of registrable shares equal to the aggregate number of registrable shares to be included in the registration, less the registrable shares of all the other registration rights holders being registered pursuant to the foregoing calculation.

All registration rights terminate, with respect to any individual registration rights holder, at such time as all registrable shares of such holder may be sold without registration pursuant to Rule 144 under the Securities Act during any three-month period.. We are required to pay all expenses incurred in carrying out the above registrations, as well as the reasonable fees and expenses of one legal counsel for the selling registration rights holders,

except for underwriter discounts and commissions with respect to the shares of such holders. The agreement provides for customary indemnification and contribution provisions. Our initial public offering on February 2007 was effected in accordance with the registration rights agreement, except that the selling shareholders agreed to bear the expenses of the offering.

Underwriting agreement

We entered into an underwriting agreement among Goldman, Sachs & Co., Citigroup Global Markets, Inc. and Deutsche Bank Securities, Inc., as the representatives of the underwriters, and DIC and Goldman Sachs International, as the selling shareholders, on February 5, 2007, with respect to the ordinary shares sold in our initial public offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of such liabilities.

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

E. TAXATION

U.S. Federal Income Tax Considerations

The following is a general discussion of certain material U.S. federal income tax consequences of ownership and disposition of the Company's shares by a "U.S. holder" (as defined below). This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder in light of the holder's particular circumstances and does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. holders (as defined below) that hold the shares as capital assets for U.S. federal income tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as certain financial institutions, insurance companies, dealers and traders in securities or foreign currencies, persons holding the shares as part of a hedge, straddle, conversion transaction or other integrated transaction, persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, persons liable for the alternative minimum tax, tax-exempt organizations, or shareholders that own or are deemed to own 10% or more of the Company's voting power.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decision and final, temporary and proposed Treasury regulations, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. Shareholders are urged to consult their own tax advisors regarding the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of shares in light of their particular circumstances.

The discussion below applies only to U.S. holders. As used herein, a "U.S. holder" is a beneficial owner of the Company's shares that is, for U.S. federal tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the entity. Partners or members of such entities should consult their tax advisors regarding the tax consequences of investments in the Company's shares.

Taxation of Distributions

Subject to the discussion in "- Passive Foreign Investment Company Rules" below distributions paid on the Company's shares, other than certain pro rata distributions of ordinary shares, will be treated as a dividend to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Since the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, U.S. holders will generally be required to treat such distributions as taxable dividends and include them in income on the date of receipt. Subject to applicable limitations, dividends paid to certain non-corporate U.S. holders in taxable years beginning before January 1, 2011, will be taxable at a maximum rate of 15%. The amount of a dividend will include any amounts withheld by the Company or its paying agent in respect of Israeli taxes. The amount of the dividend will be treated as foreign source dividend income and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in NIS will be included in a U.S. holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may have foreign currency gain or loss if the holder does not convert the amount of such dividend into U.S. dollars on the date of its receipt. Such gain or loss would generally be treated as U.S. source ordinary income or loss.

Subject to applicable limitations that may vary depending upon a holder's particular circumstances, Israeli taxes withheld from dividends at a rate not exceeding the rate provided by the U.S.-Israel income tax treaty will be creditable against the holder's U.S. federal income tax liability. Israeli taxes withheld in excess of the rate allowed by the treaty will not be eligible for credit against a U.S. holder's federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Instead of claiming a credit, a U.S. holder may, at the holder's election, deduct the otherwise creditable foreign taxes in computing the taxable income for the year, subject to generally applicable limitations under U.S. law. The rules governing foreign tax credits are

complex and holders should consult their own tax advisors regarding the availability of foreign tax credits and the deductibility of foreign taxes in their particular circumstances.

Sale and Other Disposition of the Company's Shares

Subject to the discussion in "- Passive Foreign Investment Company Rules" below for U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. holder held the shares for more than one year. The amount of gain or loss will be equal to the difference between the tax basis in the shares disposed of and the amount realized on the disposition. Such gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

Passive Foreign Investment Company Rules

The Company believes that it was not a "passive foreign investment company" for U.S. federal income tax purposes, or PFIC, for the taxable year of 2008. The Company also believes that it will not be a PFIC for the taxable year of 2009. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, equity investments in less than 25%-owned entities) from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were to be treated as a PFIC for any taxable year during which a U.S. holder held a share in the Company, certain adverse consequences could apply to the U.S. holder. Specifically, gain recognized by a U.S. holder on a sale or other disposition of a share would be allocated ratably over the U.S. holder's holding period for the share. The amounts allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC would be taxed as ordinary income in the current year. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to such taxable year. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. holder during the preceding three years or the U.S. holder's holding period, whichever if shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. holders that may mitigate the adverse consequences resulting from PFIC status. In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to certain non-corporate holders would not apply.

Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) the U.S. holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. holder provides a correct taxpayer identification number and certifies that the U.S. holder is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

Israeli Tax Considerations

The following is a discussion of certain material Israeli tax consequences to purchasers of our ordinary shares. The discussion also contains a description of certain relevant material provisions of the current Israeli income tax structure applicable to companies in Israel, with special reference to its effect on us. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion.

This discussion applies to purchasers that will hold our ordinary shares as capital assets and does not address all of the tax consequences that may be relevant to purchasers of our ordinary shares in light of their particular circumstances or certain types of purchasers of our ordinary shares subject to special tax treatment. Because individual circumstances may differ, purchasers should consult their tax advisor to determine the applicability of the rules discussed below to them, including the application of Israeli or other tax laws. The discussion below is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Taxation of Israeli Companies

General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax at the rate of 27% for the 2008 tax year and at the rate of 26% for the 2009 tax year, and are generally subject to capital gains tax at a rate of 25% on capital gains derived after January 1, 2003, other than capital gains from the sale of listed securities, which are generally subject to the corporate tax rate in effect (unless a company was not subject to the Inflationary Adjustments Law (see below) or certain regulations prior to the time of publication of a certain amendment to the Israeli tax laws (as further explained below) in which case the tax rate is 25%). Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961, referred to as the Tax Ordinance, which came into effect on January 1, 2006, the corporate tax rate is scheduled to decrease to 25% for the 2010 tax year and thereafter.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli resident companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. In calculating capital gain, the law distinguishes between real gain and inflationary surplus. The inflationary surplus is the portion of the total capital gain equal to the increase in the relevant asset's value that is attributable to the increase in the Israeli CPI between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus. A non-resident that invests in taxable assets with foreign currency, or any individual that holds securities the price of which is stated in foreign currency, may elect to calculate the amount of inflationary surplus in that foreign currency.

Taxation of Israeli Residents

The tax rate applicable to real capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered to be a significant shareholder at any time during the 12-month period preceding such sale, the tax rate will be 25%. For this purpose, a significant shareholder is one that holds, directly or indirectly, including with others, at least 10% of certain means of control in a company.

Israeli companies are generally subject to the corporate tax rate (see above) on capital gains derived from the sale of shares listed on a stock market, unless such companies were not subject to the Inflationary Adjustments Law (or certain regulations) at the time of publication of a certain amendment to the Tax Ordinance that came into effect on January 1, 2006, in which case the applicable tax rate is generally 25%.

Taxation of Non-Israeli Residents

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on the Tel Aviv Stock Exchange or a recognized stock exchange outside of Israel (including the New York Stock Exchange), provided that such shareholders did not acquire their shares prior to the issuer's initial public offering (in which case a partial exemption may be available), that the gains were not derived from a permanent establishment maintained by such shareholders in Israel and that such shareholders are not subject to the Inflationary Adjustments Law. Shareholders that do not engage in activity in Israel generally should not be subject to such law. However, a non-Israeli corporation will not be entitled to the exemption from capital gains tax if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, under the Convention between the Government of the United States of America and the Government of Israel with respect to Taxes on Income, as amended, referred to as the U.S.-Israel tax treaty, the sale of our ordinary shares by a shareholder who qualifies as a resident of the United States within the meaning of the U.S.-Israel tax treaty and who is entitled to claim the benefits afforded to such person by the U.S.-Israel tax treaty, referred to as a treaty U.S. resident, and who holds its ordinary shares as a capital asset is also exempt from Israeli capital gains tax unless either (i) the treaty U.S. resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the treaty U.S. resident that is located in Israel. However, under the U.S.-Israel tax treaty, a treaty U.S. resident would be permitted to claim a credit for taxes paid in Israel against the U.S. federal income tax imposed on the sale, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel tax treaty does not relate to U.S. state or local taxes.

Taxation of Dividends Paid on Our Ordinary Shares

Taxation of Israeli Residents

Individuals who are Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 20%, unless the recipient is a

significant shareholder (as defined above) at any time during the 12-month period preceding the distribution in which case the applicable tax rate will be 25%. The company distributing the dividend is required to withhold tax at the rate of 20% (a different rate may apply to dividends paid on shares deriving from the exercise of stock options or other equity based awards granted as compensation to employees or office holders of the company). Companies which are Israeli residents are generally exempt from income tax on the receipt of dividends from another Israeli company, unless the source of such dividends is located outside of Israel in which case tax will generally apply at a rate of 25%.

Taxation of Non-Israeli Residents

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 20% unless the recipient is a significant shareholder at any time during the 12-month period preceding the distribution in which case the applicable tax rate will be 25%. The company distributing the dividend is required to withhold tax at the source at the rate of 20%.

Under the U.S.-Israel tax treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a treaty U.S. resident is 25%. Furthermore, the maximum rate of withholding tax on dividends that are paid in certain circumstances to a U.S. corporation holding 10% or more of our outstanding voting power throughout the tax year in which the dividend is distributed as well as the previous tax year, is 12.5%.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by such non-Israeli resident.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, applicable to foreign private issuers. As a foreign private issuer, we are exempt from certain rules and regulations under the Exchange Act prescribing the content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchase and sale of our ordinary shares. In addition, we are not required to file reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file annual reports with the SEC on Form 20-F containing financial statements audited by an independent accounting firm. We also furnish reports to the SEC on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year and other material information, in accordance with the reporting requirements applicable to us as a dual listed company and as required due to our

controlling shareholder's reporting obligations with respect to us. You may read and copy any document we file, including any exhibits, with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Substantially all of our SEC filings are also available to the public at the SEC's website at *http://www.sec.gov* and as of July 2007 also at the TASE's website at *http://maya.tase.co.il* and at the Israeli Securities Authority's website at *http://www.magna.isa.gov.il*.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the course of our normal operations, we are exposed to market risks including fluctuations in foreign currency exchange rates, interest rates and the Israeli CPI. We are exposed to currency risks primarily as a result of purchasing inventory and fixed assets mainly in U.S. dollars while almost all of our cash receipts are in NIS. A substantial amount of our cash payments are incurred in, or linked to foreign currencies. In particular, in 2007 and 2008, such payments represented approximately 33% each year, of total cash outflows (including payments of principal and interest on our debentures). Also, we are exposed to interest rate risks through our hedging instruments and to possible fluctuations in the Israeli CPI through our debentures.

In order to protect ourselves from fluctuations in foreign currency exchange rates, we have established a foreign currency hedging program. Under this program, we currently hedge part of our U.S. dollar liabilities, firm commitments and budgeted expenditures for the next 6 to 12 months using foreign currency forward exchange contracts and currency options. A foreign currency forward exchange contract is a contract whereby we agree to buy or sell a foreign currency at a predetermined exchange rate at a future date. A currency option is an option to buy or sell a foreign currency at a predetermined exchange rate at a future date. The exchange rate fluctuations that impact our foreign currency denominated financial liabilities, firm commitments and budgeted expenditures are intended to be offset by gains and losses on these hedging instruments.

The goal of our hedging program is to limit the impact of exchange rate fluctuations on our transactions denominated in U.S. dollars. We do not hold derivative financial instruments for trading purposes. Nevertheless, under IFRS, we are required to treat our hedges of budgeted expenditures for which there is no contractual commitment as though they were speculative investments. As a result, we are required to value these hedge positions at the end of each fiscal quarter and record a gain or loss equal to the difference in their market value from the last balance sheet date, without any reference to the change in value to the related budgeted expenditures. Accordingly, these differences could result in significant fluctuations in our reported net income.

Prior to the full repayment of our credit facility in March 2008, we protected ourselves from fluctuations in foreign currency rates in respect of our U.S. dollar long-term

loans, by utilizing compound foreign currency and interest rate swaps, throughout the entire period of the loan.

Also, as of December 31, 2008, we had four outstanding series of debentures, which are linked to the Israeli CPI, in an aggregate principal amount of approximately NIS 3.52 billion. As of December 31, 2008, we had forward Israeli CPI / NIS transactions, in a total amount of NIS 1.85 billion, with an average maturity period of 1 (one) year, in order to hedge our exposure to fluctuations in the Israeli CPI. We periodically review the possibility of entering into additional transactions in order to lower the exposure in respect of the debentures.

Set forth below is the composition of the derivative financial instruments at the following dates:

	As of December 31					
	2006		2007		2008	
	Par Value	Fair Value	Par Value	Fair Value	Par Value	Fair Value
	(In NIS millions)					
Forward contracts on exchange rate (mainly US$– NIS)	507	(26)	537	(28)	763	23
Forward contracts on Israeli CPI rate	500	(15)	1,800	24	1,850	(1)
Options on the exchange rate (mainly US$– NIS)	659	(1)	530	1	1,226	5
Compounded foreign currency and interest swap	718	(70)	792	(61)	320	(12)
	2,384	(112)	3,659	(64)	4,159	15

Sensitivity information

Without taking into account our hedging instruments and based upon our debt outstanding as at December 31, 2008, fluctuations in foreign currency exchange rates, interest rates or the Israeli CPI would affect us as follows:

- an increase of 0.1% of the Israeli CPI would result in an increase of approximately NIS 3.7 million in our financial expenses;
- a devaluation of the NIS against the U.S. dollar of 1.0% would increase our financial expenses by approximately NIS 1 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2008, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Management Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting, as of December 31, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, management believes that as of December 31, 2008 our internal control over financial reporting is effective based on this criteria.

The effectiveness of management's internal control over financial reporting as of December 31, 2008 has been audited by the Company's independent registered public accounting firm, Somekh Chaikin, a member of KPMG International and their report as of March 1, 2009, herein expresses an unqualified opinion on the Company's internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm have issued an audit report on the effectiveness of our internal control over financial reporting. This report is included in page F-1 of this Form 20-F.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Baytel qualifies as "audit committee financial expert" as defined in Item 16A of Form 20-F. Ms. Baytel qualifies as an independent director under the independence standards applicable to listed company audit committee members, pursuant to Rule 10A-3 under the Securities Exchange Act. See Item 16D below.

ITEM 16B. CODE OF ETHICS

Our Code of Ethics applies to all of our officers, directors and employees. We have posted a copy of our Code of Ethics on our website at *www.cellcom.co.il* under "Investor Relations – Corporate Governance –Code of Ethics."

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Somekh Chaikin, a member of KPMG International, has served as our independent registered public accounting firm for 2007 and 2008. These accountants billed the following fees to us for professional services in each of those fiscal years:

	2007	2008
	(NIS in thousands)	
Audit Fees	1,535	2,635
Audit-Related Fees (1)	872	-
Tax Fees	71	98
Total	2,478	2,733

(1) "Audit-related fees" includes mainly fees for services performed in connection with our registration statement on Form F-1 for our offering in February 2007. The registration statement expenses were reimbursed to the Company by the shareholders who sold shares during the offering.

"Audit Fees" are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC. "Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time. "Tax Fees" are the aggregate fees billed for professional services rendered for tax compliance, tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

Our Audit Committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants, and the maximum pre-approved fees that may be paid as compensation for each pre-approved service in those categories. Any proposed services exceeding the maximum pre-approved fees require specific approval by the Audit Committee.

The Audit Committee has delegated part of its pre-approval authority to the chairman of the Audit Committee, subject to ratification by the entire Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

In reliance upon exemptions for newly public companies under Rule 10A-3(b)(1)(iv) under the Exchange Act, until May 2007, one of the four members of our audit committee, Mr. Shlomo Waxe, was independent under the independence standards applicable to listed company audit committee members, pursuant to Rule 10A – 3 under the Securities Exchange Act. In May 2007 we appointed Mr. Barnea and Ms. Baytel, elected as external directors, who are also independent under such independence standards, to our audit committee. After these appointments and the resignation of Mr. Bigger from this committee, a majority of the members of our audit committee was independent. As of February 2008, following the resignation of Mr. Lieder and Mr. Cohen from this committee, the committee is composed entirely of independent members. We do not believe that our reliance on these exemptions has materially adversely affected the ability of our audit committee to act independently or to satisfy the other applicable requirements of Sarbanes-Oxley Act.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the NYSE:

Majority of Independent Directors - Under Section 303A.01 of the NYSE Listed Company Manual, or LCM, U.S. domestic listed companies, other than controlled companies (i.e. companies with a person or group owning more than 50% of the voting power), must have a majority of independent directors. We would not be subject to this requirement even if we were a U.S. company as we are a controlled company, and do not have a similar requirement under Israeli practice or the Israeli Companies Law.

Nominating/Corporate Governance Committee -Under Section 303A.04 of the LCM, a U.S. domestic listed company, other than a controlled company, must have a nominating/corporate governance committee composed entirely of independent directors. We would not be subject to this requirement even if we were a U.S. company as we are a controlled company, and are not required to have such a committee under the Israeli Companies Law.

Compensation Committee - Under Section 303A.05 of the LCM, a U.S. domestic listed company, other than a controlled company, must have a compensation committee composed entirely of independent directors. We would not be subject to this requirement even if we were a U.S. company as we are a controlled company, and do not have a compensation committee, as we do not have a requirement for a compensation committee under the Israeli Companies Law.

Separate Meetings of Non-Management Directors - Under Section 303A.03 of the LCM, the non-management directors of each U.S. domestic listed company must meet at regularly scheduled executive sessions without management. We do not have a similar requirement under the Israeli Companies Law, and our independent directors do not meet separately from directors who are not independent, other than in the context of audit committee meetings.

Audit Committee - Under Section 303A.06 of the LCM, domestic listed companies are required to have an audit committee that complies with the requirements of Rule 10A-3 of the Securities and Exchange Act of 1934. Rule 10A-3 requires the audit committee of a U.S. company to be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, and that each such firm must report directly to the audit committee. However, Rule 10A-3 provides that foreign private issuers may comply with applicable home country law that (i) requires or permits shareholders to appoint the registered public accounting firm or (ii) prohibits the delegation of responsibility to the issuer's audit committee without being in conflict with Rule 10A-3. Pursuant to the Israeli Companies Law, our registered public accounting firm is appointed by the shareholders at the annual meeting of shareholders. Our audit committee is responsible for recommending to the shareholders the appointment of our registered public accounting firm and to pre-approve the amounts to be paid to our registered public accounting firm. In addition, pursuant to the Israeli Companies Law, our financial statements must be approved by our board of directors. Such approval is given only after the

review and recommendation of our audit committee. Pursuant to our audit committee charter, our audit committee is responsible for overseeing the work of our registered public accounting firm.

Equity Compensation Plans - Under Section 303A.08 of the LCM, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule. We follow the requirements of the Israeli Companies Law under which approval of equity-compensation plans and material revisions thereto is within the authority of the board of directors. However, under the Israeli Companies Law, any compensation to directors, including equity based compensation, requires the approval of the audit committee, the board of directors and the shareholders, in that order, and

Corporate Governance Guidelines - Under Section 303A.09 of the LCM, domestic listed companies must adopt and disclose their corporate governance guidelines. We do not have a similar requirement under the Israeli Companies Law and therefore, other than as disclosed in this annual report on Form 20-F, we do not disclose our corporate governance guidelines.

PART III

ITEM 17. FINANCIAL STATEMENTS

See pages F-1 through F-71 of this annual report.

ITEM 18. FINANCIAL STATEMENTS

Not applicable

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	Articles of Association and Memorandum of Association †
2.1	Form of Ordinary Share Certificate†
4.1	Series A Indenture dated December 21, 2005 and an addendum dated February 27, 2006 between Cellcom and Aurora Fidelity Trust Ltd. †
4.2	Series B Indenture dated December 21, 2005 and an addendum dated February 27, 2006 between Cellcom and Hermetic Trust (1975) Ltd. †
4.3	Series C Indenture dated September 20, 2007, between Cellcom and Aurora Fidelity Trust Ltd. ††
4.4	Series D Indenture dated September 20, 2007, between Cellcom and Hermetic Trust (1975) Ltd. ††
4.5	Amended 2006 Share Incentive Plan*
4.6	Registration Rights Agreement dated March 15, 2006 among Cellcom, Goldman Sachs International, DIC, DIC Communication and Technology Ltd. and PEC Israel Economic Corporation†

Exhibit Number	Description
4.7	Amended Non-Exclusive General License for the Provision of Mobile Radio Telephone Services in the Cellular Method dated June 27, 1994*
8.1	Subsidiaries of the Registrant†
12.1	Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act *
12.2	Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act *
13.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act *
15	Consent of Independent Registered Public Accounting Firm *

* Filed herewith.

† Incorporated by reference to our registration statement on Form F-1 (registration no. 333-140030) filed with the SEC on January 17, 2007.

†† Incorporated by reference to our annual report on Form 20-F for the year 2007 filed with the SEC on March 18, 2008.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CELLCOM ISRAEL LTD.

By: _____

Name: Amos Shapira
Title: President and Chief Executive Officer

Date: March 2, 2009

Report of Independent Registered Public Accounting Firm

To The Shareholders of
Cellcom Israel Ltd.

We have audited the accompanying consolidated balance sheets of Cellcom Israel Ltd. and subsidiaries (hereinafter – "the Company") as of December 31, 2008 and 2007, and the consolidated income statements, the consolidated statements of recognized income and expenses, and consolidated statements of cash flows for the years then ended. We also have audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission".

The Company's annual consolidated financial statements for 2007 were previously prepared in conformity with Israeli generally accepted accounting principles. As more fully described in note 2A to the consolidated financial statements, the Company elected in 2008, to change the basis of accounting used in preparing its financial statements for it to be in conformity with IFRS as issued by the IASB. Consequently, the Company's annual prior year financial statements for 2007, referred to above, are now being presented in accordance with IFRS as issued by the IASB.

The accompanying consolidated financial statements as of and for the year ended December 31, 2008 have been translated into United States dollars ("dollars") solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Israeli Shekels ("NIS") have been translated into dollars on the basis set forth in Note 2D to the consolidated financial statements.

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

Tel Aviv, Israel
March 1, 2009

Consolidated Balance Sheets

All amounts are in millions

	Note	December 31 2007 NIS	December 31 2008 NIS	Convenience translation Into U.S. dollar (Note 2D) December 31 2008 US$
Assets				
Cash and cash equivalents	6	911	275	72
Trade receivables	7	1,385	1,478	389
Other receivables, including derivatives	7	96	112	30
Inventory	8	245	119	31
Total current assets		2,637	1,984	522
Trade and other receivables	7	575	602	158
Property, plant and equipment, net	9	2,335	2,159	568
Intangible assets, net	10	685	675	178
Total non- current assets		3,595	3,436	904
Total assets		6,232	5,420	1,426
Liabilities				
Short-term borrowings	14	353	329	87
Trade payables and accrued expenses	11	953	677	178
Current tax liabilities		122	65	17
Provisions	12	91	47	13
Other current liabilities, including derivatives	13	384	385	101
Total current liabilities		1,903	1,503	396
Long-term loans from banks	14	343	-	-
Debentures	14	2,983	3,401	895
Provisions	12	14	17	4
Other long-term liabilities		3	1	-
Deferred taxes	25	149	156	41
Total non- current liabilities		3,492	3,575	940
Total liabilities		5,395	5,078	1,336
Shareholders' equity	16			
Share capital		1	1	-
Cash flow hedge reserve		(33)	(11)	(3)
Retained earnings		869	352	93
Total shareholders' equity		837	342	90
Total liabilities and shareholders' equity		6,232	5,420	1,426

The accompanying notes are an integral part of the financial statements.

Consolidated Income Statements

All amounts are in millions except for share and per share data

	Note	Year ended December 31 2007 NIS	Year ended December 31 2008 NIS	Convenience translation into U.S. dollar (Note 2D) Year ended December 31 2008 US$
Revenues	19	6,050	6,417	1,688
Cost of revenues	20	3,377	3,402	895
Gross profit		2,673	3,015	793
Selling and marketing expenses	21	685	701	185
General and administrative expenses	22	653	659	173
Other (income) expenses, net	23	3	(29)	(8)
Operating income		1,332	1,684	443
Financing income		140	83	22
Financing expenses		(287)	(393)	(104)
Financing costs, net	24	(147)	(310)	(82)
Income before income tax		1,185	1,374	361
Income tax	25	310	389	102
Net income		875	985	259
Earnings per share				
Basic earnings per share in NIS	3N	8.97	10.08	2.65
Diluted earnings per share in NIS	3N	8.89	9.92	2.61
Weighted-average number of shares used in the calculation of basic earnings per share (in thousands)		97,500	97,721	97,721
Weighted-average number of shares used in the calculation of diluted earnings per share (in thousands)		98,441	99,280	99,280

The accompanying notes are an integral part of the financial statements.

Consolidated statements of recognized income and expenses

All amounts are in millions

	Year ended December 31		Convenience translation into U.S. dollar (Note 2D) Year ended December 31
	2007	2008	2008
	NIS	NIS	US$
Net change in fair value of cash flow hedges transferred to profit and loss	27	44	12
Changes in fair value of cash flows hedges	(28)	(10)	(3)
Income tax recognized directly in equity	(8)	(12)	(3)
Income and expenses recognized directly in equity	(9)	22	6
Net income for the year	875	985	259
Total recognized income for the year	866	1,007	265

The accompanying notes are an integral part of the financial statements.

Consolidated statements of cash flows

All amounts are in millions

	Year ended December 31		Convenience translation into U.S. dollar (Note 2D) Year ended December 31
	2007	2008	2008
	NIS	NIS	US$
Cash flows from operating activities:			
Net income	875	985	259
Adjustments to reconcile net income to funds generated from operations:			
Depreciation	619	570	150
Amortization	156	181	48
Reversal of provision allowance	(10)	-	-
Capital gain on sale of land	-	(9)	(2)
Loss (gain) on sale of assets	4	(9)	(2)
Income tax expense	310	389	102
Financial costs, net	147	310	82
Share based payments	29	28	7
Changes in operating assets and liabilities:			
Changes in inventories	(114)	112	29
Changes in trade receivables (including long-term amounts)	(99)	(117)	(31)
Changes in other receivables (including long-term amounts)	(24)	(34)	(9)
Changes in trade payables and accrued expenses	188	(271)	(71)
Changes in other liabilities (including long-term amounts)	92	99	26
Payments for derivative hedging contracts, net	(24)	(38)	(10)
Proceeds from (payments for) derivative contracts, net	(16)	18	5
Income tax paid	(313)	(451)	(119)
Net cash from operating activities	1,820	1,763	464
Cash flows from investing activities			
Acquisition of property, plant, and equipment	(466)	(429)	(113)
Acquisition of intangible assets	(97)	(175)	(46)
Payments for derivative hedging contracts, net	(12)	(17)	(4)
Proceeds from sales of property, plant and equipment	4	19	5
Interest received	23	17	4
Investment in long-term deposit	(12)	39	10
Net cash used in investing activities	(560)	(546)	(144)
Cash flows from financing activities			
Proceeds from (payments for) derivative contracts, net	(10)	31	8
Repayments of long-term loans from banks	(645)	(648)	(171)
Repayments of Debentures	-	(125)	(33)
Proceeds from issuance of debentures, net of issuance costs	1,066	589	155
Dividend paid	(639)	(1,525)	(401)
Interest paid	(177)	(175)	(46)
Net cash used in financing activities	(405)	(1,853)	(488)
Changes in cash and cash equivalents	855	(636)	(168)
Balance of cash and cash equivalents at beginning of the period	56	911	240
Balance of cash and cash equivalents at end of the period	911	275	72

The accompanying notes are an integral part of the financial statements.

Note 1 – Reporting Entity

Cellcom Israel Ltd. and its subsidiaries ("the Company") is a company incorporated and domiciled in Israel. The consolidated financial statements of the Company as at December 31, 2008 comprise Cellcom Israel Ltd. and its subsidiaries. The Company operates and maintains a cellular mobile telephone system and provides cellular mobile telephone services in Israel. The Company is a consolidated subsidiary of Discount Investment Corporation (the parent company "DIC") part of IDB group.

Note 2 – Basis of Preparation

A. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB). These are the Company's first annual consolidated financial statements that were prepared in accordance with IFRS as issued by the IASB and IFRS 1 First Time Adoption of International Financial Reporting Standards.

The influence of the transition to IFRS on the Company's financial statements for the year ended December 31, 2007, its results of operations and its cash flows, is detailed in note 31.

These consolidated financial statements were approved by the Board of Directors on March 1, 2009.

B. Functional and presentation currency

These consolidated financial statements are presented in New Israeli Shekels ("NIS"), which is the Company's functional currency, and are rounded to the nearest million. NIS is the currency that represents the primary economic environment where the Company operates in.

C. Basis of measurement

These consolidated financial statements have been prepared on the basis of historical cost except for derivative financial instruments that are presented according to their fair value.

The value of non monetary assets and equity items that were measured on the basis of historical cost, have been adjusted for changes in the general purchasing power of the Israeli currency -NIS, based upon changes in the Israeli Consumer Price Index (“CPI”) until December 31, 2003, as until that date the Israeli economy was considered hyperinflationary.

D. Convenience translation into U.S. dollars (“dollars” or “$”)

For the convenience of the reader, the reported NIS figures as of December 31, 2008, have been presented in dollars, translated at the representative rate of exchange as of December 31, 2008 (NIS 3.802 = US$ 1.00). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

Note 2 – Basis of Preparation (cont'd)

E. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management determines estimates based upon past experience, various factors, external sources and reasonable assumptions according to the circumstances appropriate to each estimate. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about estimates, uncertainty and critical judgments about provisions and contingencies are described in notes 12 and 28. In addition, information about critical estimates, made while applying accounting policies and that have the most significant effect on the consolidated financial statements are described below:

Trade receivables

The financial statements include an impairment loss in trade and other receivables which properly reflects, according to management’s estimation, the potential loss from non recoverable amounts. The Company provides for impairment loss based on its experience in collecting past debts, as well as on information on specific debtors. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. See also note 18.

Impairment loss and useful life of assets

The Company regularly reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. See also note 3G.

The useful economic life of the Company's assets is determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Company defines useful life of its assets in terms of the assets' expected utility to the Company. This judgment is based on the experience of the Company with similar assets. The useful life of the license is based on the duration of the license agreement. See also notes 3D and 3E.

Share based payments

Options granted to employees are measured using a Black-Sholes model. The expected life used on the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest. See also note 17.

Note 3 - Significant Accounting Policies

These consolidated financial statements have been prepared according to International Financial Reporting Standards as issued by the IASB and their related interpretations (IFRSs), that are in effect or otherwise available for early adoption at the Company's first IFRS annual reporting date, December 31, 2008, and were the basis for the Company's accounting policy.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2007 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from previous Israeli GAAP to IFRSs is explained in note 31.

A. Basis of consolidation

These consolidated financial statements include consolidation of the financial statements of the Company and its fully owned subsidiaries: Cellcom Real Estate (2001) Ltd., Cellcom Holdings (2001) Ltd. and Cellcom Fixed Line Communication L.P., a limited partnership. All inter-company transactions and balances were eliminated upon consolidation.

B. Foreign currency transactions

Transactions in foreign currencies are translated to NIS at the prevailing foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to NIS at the prevailing foreign exchange rate at that date. Foreign exchange differences arising on translation are recognized in profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NIS at the prevailing foreign exchange rates at the dates the fair value was determined.

C. Financial instruments

Financial instruments are recognized when the Company enters into the contractual terms of the instrument. Financial assets are derecognized when the contractual rights of the Company to the cash flows deriving from the financial asset expire, or when the Company transfers the financial asset to others without retaining control in the asset, or transfers all the risks and rewards deriving from the asset. Sales and acquisitions of financial instruments are recognized on the transaction date, that is the date in which the Company is obligated to sell or purchase the asset. Financial liabilities are derecognized when the Company's contractual obligations expire, or when it is settled or cancelled.

1. Non derivative financial instruments
   Non derivative financial instruments are comprised of cash and cash equivalents, trade receivables, other receivables, loans and borrowings, debentures, trade payables and other payables. Non derivative financial instruments are measured at amortized cost using the effective interest method if applicable, less any impairment loss.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

2. Derivative financial instruments
   The Company holds derivative financial instruments to hedge its foreign currency and interest rate risks exposures. Embedded derivatives are separated from the host contract and carried at fair value when (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, (2) a separate, stand-alone instrument with the same terms would meet the definition of a derivative, and (3) the combined instrument is not measured at fair value through profit and loss.

   Derivatives are initially recognized at fair value; transaction costs that can be attributed are recognized to profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value. Changes in fair value are accounted for as follows:

   Cash flow hedges
   Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit and loss.

   If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecasted transaction occurs or is no longer expected to occur. The amount recognized in equity is transferred to profit and loss in the same period that the hedged item affects profit and loss.

   Economic Hedges
   Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit and loss as part of foreign currency gains and losses.

   Separable embedded derivatives
   Changes in fair value of separable embedded derivatives are recognized immediately in profit and loss.

3. Financial instruments linked to the Israeli CPI that are not measured at fair value.
   The carrying amount of a financial instrument and the payments derived from it are revalued in each period according to the actual rate of change in the CPI.

4. Share capital
   Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

D. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized immediately in profit or loss.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other (income) expenses" in profit and loss.

Depreciation is calculated using the straight-line method. If the property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. The annual depreciation rates are as follows:

	%
Network and transmission equipment	5-20
Control and testing equipment	15-25
Vehicles	15
Computers and hardware	15-33
Furniture and office equipment	6-15

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the expected lease terms.

E. Intangible assets

Intangible assets consist of licenses, computer software costs and deferred expenses.

(1) Intangible assets are stated at cost, including direct costs necessary to prepare the asset for its intended use. A group of similar intangible assets are measured at cost net of accumulated amortization and accumulated impairment losses.
(2) Certain direct and indirect development costs associated with internally developed information system software, and payroll costs for employees devoting time to the software projects, incurred during the application development stage, are capitalized. The costs are amortized using the straight-line method beginning when the asset is substantially ready for use. Costs incurred during the research stage and after the asset is substantially ready for use are expensed as incurred.
(3) Deferred expenses in respect of commissions regarding the acquisition of new subscribers are recognized as intangible assets, if the costs can be measured reliably, incremental to the contract and directly attributable to obtaining a specific subscriber. If the costs do not meet the aforementioned criteria, they are recognized immediately as expenses.
(4) Amortization is calculated using the straight-line method. If the intangible assets consist of several components with different estimated useful lives, the individual significant components are amortized over their individual useful lives. The annual amortization rates are as follows:

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets (cont'd)

	%	
Licenses	5-6	(mainly 6%)
Information systems	25	
Software	25	

Deferred expenses are amortized over 18 months period that represent the expected life of the contractual relationship with the subscriber.

F. Inventory

Inventory of cellular phone equipment, accessories and spare-parts are stated at the lower of cost or net realizable value. Cost is determined by the moving average method.

G. Impairment

1. Financial assets

   A financial asset is tested for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

   An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

   All impairment losses are recognized in profit and loss.

   An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit and loss.

2. Property, plant and equipment and intangible assets

   At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

   If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

2. Property, plant and equipment and intangible assets (cont'd)

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.

H. Employee benefits

1. Post employment benefits

Substantially all of the Company's liability for post employment benefits is covered by a defined contribution plan financed by deposits with insurance companies or with funds managed by a trustee. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit and loss when they are due.

2. Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated.

3. Share based payments

The grant date fair value of options granted to employees is recognized as salaries and related expenses, with a corresponding increase in retained earnings, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Fair value is measured using a Black-Scholes model. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

I. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

Note 3 - Significant Accounting Policies (cont'd)

J. Revenue

Revenues derived from usage of the Company's networks, including airtime, interconnect and roaming revenues are recognized when the services are provided, and all other revenue recognition criteria are met.

Sale of handsets with accompanying services constitutes a revenue arrangement with multiple deliverables. Accordingly, consideration received for handsets, up to their fair value, that is not contingent upon delivery of additional items (such as the service), is recognized as equipment revenues upon the delivery of the equipment to the subscriber, when all revenue recognition criteria are met. Consideration for services is recognized as service revenues, when earned.

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods, and the amount of revenue can be measured reliably.

In revenue arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company determines the fair value of the individual elements based on prices at which the deliverable is regularly sold on a stand alone basis, after considering volume discounts where appropriate.

The Company offers value added services including voice mail, text and multimedia messaging, as well as downloadable wireless data applications, including ring tones, music, games, and other informational content. Generally, these enhanced features and data applications generate additional service revenues through monthly subscription fees or increased usage through utilization of the features and applications. Other optional services, such as equipment extended warranty plans are also provided for a monthly fee and are either sold separately or bundled and included in packaged rate plans. Revenues from enhanced features and optional services are recognized when earned.

Revenues from long-term credit arrangements are recognized on the basis of the present value of future cash flows, discounted according to market interest rates at the time of the transaction. The difference between the original credit and its present value is recorded as interest income over the credit period.

Prepaid wireless airtime sold to customers is recorded as deferred revenue prior to the commencement of services and is recognized when the airtime is used or expires.

When the Company acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, revenues are presented on a net basis (as a profit or a commission). However, when the Company acts as a principal supplier and bears the risks and rewards resulting from the transaction, revenues are presented on a gross basis, distinguishing the revenue from the related expenses.

Costs of revenues mainly include ongoing license fees, interconnection and roaming expenses, cell site leases, depreciation and amortization charges and technical repair and maintenance expenses directly related to services rendered.

K. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Note 3 - Significant Accounting Policies (cont'd)

L. Finance income and expenses

Finance income is comprised of interest income on cash deposits and interest income on installment sales. Interest income is recognized as it accrues in profit and loss.

Finance expenses are comprised of interest and indexing expenses on loans and debentures and unwinding of the discount on provisions. All borrowing costs are recognized in profit and loss using the effective interest method.
Foreign currency and hedging instruments gain and losses that are recognized in profit or loss are reported on a net basis.

M. Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

N. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

O. Advertising expenses

Advertising costs are expensed as incurred.

Note 3 - Significant Accounting Policies (cont'd)

P. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing these consolidated financial statements:

1. Revised IAS 23 Borrowing Costs. The revised standard removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. The Company does not expect these amendments to have a material impact on the financial statements of the Company.

2. IFRS 2 Share-based Payments – Vesting Conditions and Cancellations. This amendment to IFRS 2 Revised was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Company has not entered into share-based payment plans with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

3. Revised IAS 1 Presentation of Financial Statements. The revised IAS 1 was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit and loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. Once implemented, the Company will present separate statements of comprehensive income and in addition statement of changes in equity.

4. Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations arising on Liquidation, were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect these amendments to impact its financial statements.

Note 3 - Significant Accounting Policies (cont'd)

P. New standards and interpretations not yet adopted (cont'd)

5. IFRIC 13 Customers Loyalty Programs: IFRIC 13 addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. The interpretation is based on a view that customers are implicitly paying for the points they receive when they buy other goods or services, and hence that some revenue should be allocated to the points. IFRIC 13 requires companies to estimate the value of the points to the customer and defer this amount of revenue as a liability until they have fulfilled their obligations to supply awards. The interpretation is mandatory for the Company's 2009 consolidated financial statements. The Company does not expect these amendments to have a material impact on its financial statements.

6. IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements, revised ("standards"). The main revisions to the new standards are: including business combinations that involve only mutual entities, or that are executed through contracts only, a revised definition of business and business combinations, a change in the measurement method of carried forward items in business combinations, providing two measurement options regarding non-controlling rights, a change in the accounting treatment of transaction costs, the accounting treatment regarding piece by piece acquisitions, the allocation of comprehensive income between shareholders, the accounting for acquisitions or sales of equity rights while maintaining control as equity transactions, the accounting for transactions that result in gain or loss of control in full fair value, so that the subsequent holdings after the loss of control are recognized through profit and loss, and the original investment in obtaining control is also recognized in fair value through profit and loss, and a broadening of disclosure requirements. The standards shall be applied on annual reporting periods beginning on, or after, July 1, 2009. Earlier application is permitted (only if both standards are implemented simultaneously). IFRS 3 applies to business combinations for which the acquisition date is on or after the application date. IAS 27 shall be applied retrospectively, except for the allocation of comprehensive income between shareholders, the treatment in changes in rights in a subsidiary subsequent to obtaining control, and the treatment in the loss of control in a subsidiary, which will be applied as from the date of application.

7. Eligible Hedged Items (amendment to IAS 39 Financial Instruments: Recognition and Measurement) introduces application guidance to illustrate how the principles underlying hedge accounting should be applied in the designation of i) a one-sided risk in a hedged item and ii) inflation in a financial hedged item. The amendment is effective, with retrospective application, for annual periods beginning on or after July 1, 2009 and is not expected to have a material effect on the consolidated financial statements.

8. IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Company does not present segment information. It is not expected to have a material impact on the consolidated financial statements.

Note 4 - Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A. Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

B. Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

C. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

D. Share- based payment transactions

Fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 5 - Financial Risk Management

The Company is exposed to credit, liquidity and market risks as part of its normal course of business. The Company's risk management objective is to monitor risks and minimize the possible influence that results from this exposure, according to its evaluations and expectations of the parameters that affect the risks. The Company uses derivative instruments in order to partially hedge its exposure to foreign currency exchange rate and interest rate fluctuations. See also note 18.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company conducts credit evaluations on receivables over a certain amount, and requires financial guaranties against them. Management monitors outstanding receivable balances and the financial statements include appropriate allowances for estimated irrecoverable amounts.

The Company's cash and cash equivalents are maintained with major banking institutions in Israel.

Note 5 - Financial Risk Management (cont'd)

Credit risk (cont'd)

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the balance sheet. Financial instruments that could potentially subject the Company to credit risks consist primarily of trade receivables. Credit risk with respect to these receivables is limited due to the composition of the subscriber base, which includes a large number of individuals and businesses.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's policy is to ensure that it has sufficient cash and cash equivalents to meet expected operational expenses, including financial obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Interest rate risk

The Company is exposed to fluctuations in the interest rate, including changes in the CPI, as the majority of its borrowings are linked to the CPI. As part of its risk management policy the Company has entered into forward contracts that partially hedge the exposure to changes in the CPI.

Currency risk

The Company's operating income and cash flows are exposed to currency risk, mainly due to handset and network related acquisitions and its roaming activity. The Company also manages bank accounts that are denominated in a currency other than its respective functional currency, primarily USD and Euro. As part of its risk management policy the Company uses forward and option contracts to partially hedge the exposure to fluctuations in foreign exchange rates.

Capital management

The Company's capital management aim is to ensure a sound and efficient capital structure which takes into consideration, among others, the following factors:
A gearing ratio that supports the Company's cash flow needs vis a vis its potential cash flow generation, supporting its dividend policy, while maintaining a net debt to EBITDA ratio that meets the industry standards. The Company considers net debt to EBIDTA ratio to be an important measure for investors, analysts, and rating agencies. This ratio is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The Company's debt consists of short and long term debentures traded publicly in the Tel Aviv Stock Exchange and rated AA- by Maalot, an S&P subsidiary.

Note 6 - Cash and Cash Equivalents

Composition

	December 31	
	2007	2008
	NIS millions	NIS millions
Bank balances	10	18
Call deposits	901	257
	911	275

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 18.

Note 7 - Trade and Other Receivables

Composition

	December 31	
	2007	2008
	NIS millions	NIS millions
Trade Receivables		
Open accounts	387	423
Checks and credit cards receivables	158	187
Accrued income	214	202
Current maturity of long-term receivables	626	666
	1,385	1,478
Other Receivables		
Prepaid expenses	49	43
Derivative financial instruments	44	68
Other	3	1
	96	112
Current	1,481	1,590
Non-current	575	602
	2,056	2,192

The Company's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 18.

Note 8 - Inventory

A. Composition

	December 31	
	2007	2008
	NIS millions	NIS millions
Handsets	195	83
Accessories	18	13
Spare parts	32	23
	245	119

B. Inventories of handsets, accessories and spare-parts as at December 31, 2008, are presented net of a provision for decline in value in the amount of NIS 6 million (December 31, 2007 – NIS 2 million).

Note 9 - Property, Plant and Equipment, Net

A. Composition:

	Network and transmission equipment	Control and testing equipment	Vehicles	Computers, furniture and office equipment	Leasehold improvements	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost						
Balance at January 1, 2007	7,454	261	16	1,173	176	9,080
Additions	324	23	2	63	15	427
Disposals	(33)	(1)	(2)	(285)	-	(321)
Balance at December 31, 2007	7,745	283	16	951	191	9,186
Additions	291	27	-	66	15	399
Disposals	*(2,364)	-	(2)	(197)	-	(2,563)
Balance at December 31, 2008	5,672	310	14	820	206	7,022
Accumulated Depreciation						
Balance at January 1, 2007	5,347	210	6	881	104	6,548
Depreciation for the year	473	18	2	108	15	616
Disposals	(28)	-	(1)	(284)	-	(313)
Balance at December 31, 2007	5,792	228	7	705	119	6,851
Depreciation for the year	444	16	2	87	16	565
Disposals	*(2,356)	-	(2)	(195)	-	(2,553)
Balance at December 31, 2008	3,880	244	7	597	135	4,863
Carrying amounts						
At January 1, 2007	2,107	51	10	292	72	2,532
At December 31, 2007	1,953	55	9	246	72	2,335
At December 31, 2008	1,792	66	7	223	71	2,159

***** In 2008, the Company wrote off certain network and transmission equipments that were no longer in use.

The gross carrying amount of fully depreciated property, plant and equipment is still in use as of December 31, 2008 NIS 2,640 million.

Note 10 - Intangible Assets, Net

A. Composition:

	Licenses	Information Systems	Software	Deferred expenses	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost					
Balance at January 1, 2007	550	459	221	9	1,239
Additions	-	87	38	21	146
Disposals	-	(7)	-	(9)	(16)
Balance at December 31, 2007	550	539	259	21	1,369
Additions	-	67	44	60	171
Disposals	-	-	-	-	-
Balance at December 31, 2008	550	606	303	81	1,540
Accumulated Amortization					
Balance at January 1, 2007	92	308	135	9	544
Amortization for the year	39	73	42	2	156
Disposals	-	(7)	-	(9)	(16)
Balance at December 31, 2007	131	374	177	2	684
Amortization for the year	35	68	42	36	181
Disposals	-	-	-	-	-
Balance at December 31, 2008	166	442	219	38	865
Carrying amounts					
At January 1, 2007	458	151	86	-	695
At December 31, 2007	419	165	82	19	685
At December 31, 2008	384	164	84	43	675

Note 11 - Trade Payables and accrued expenses

Composition

	December 31	
	2007	2008
	NIS millions	NIS millions
Trade payables	443	277
Accrued expenses	510	400
	953	677

Note 12 – Provisions

	Dismantling and restoring sites	Litigations	Other legal obligations	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2008	14	-	87	4	105
Provisions made during the period	2	10	-	-	12
Provisions reversed during the period	-	-	(54)	-	(54)
Unwind of discount	1	-	-	-	1
Balance as at December 31, 2008	17	10	33	4	64
Non-current	17	-	-	-	17
Current	-	10	33	4	47
	17	10	33	4	64

Dismantling and restoring sites

The Company is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation, etc, and are discounted at a risk-free rate. Forecasts of estimated site departures or assets returns are revised in light of future changes in regulations or technological requirements.

Litigations

The Company is involved in a number of legal and other disputes with third parties. The Company's management after taking legal advice, has established provisions after taking into account the facts of each case. The timing of cash outflows associated with legal claims cannot be reasonably determined. For detailed information regarding legal proceeding against the Company refer to note 28.

Other legal obligations

Provisions for other legal obligations include various obligations that are derived either from a constructive obligation or legislation for which there is a high uncertainty regarding the timing and amount of future expenditure required for settlement.

Other

Include provisions for warranties, as well as a variety of other items for which the individually recognized amounts are largely not material.

Note 13 - Other Current Liabilities, including derivatives

Composition

	December 31	
	2007	2008
	NIS millions	NIS millions
Employees and related liabilities	126	121
Government institutions	34	45
Accrued expenses	91	118
Deferred revenue	39	47
Derivative financial instruments	94	54
	384	385

Note 14 – Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 18.

	December 31	
	2007	2008
	NIS millions	NIS millions
Non- current liabilities		
Secured bank loans	343	-
Debentures	2,983	3,401
	3,326	3,401
Current liabilities		
Current maturities of secured bank loans	232	-
Current maturities of debentures	121	329
	353	329

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				December 31, 2007		December 31, 2008	
				NIS millions		NIS millions	
	Currency	Nominal interest rate	Year of maturity	Par value	carrying amount	Par value	carrying amount
Secured bank loan	NIS	TELBOR + 0.8%	2010	253	251	-	-
Secured bank loan	USD	LIBOR + 0.8%	2010	327	324	-	-
Debentures (Series A) - linked to the Israeli CPI	NIS	5.00%	2012	1,065	1,090	947	1,012
Debentures (Series B) - linked to the Israeli CPI	NIS	5.30%	2017	925	949	925	992
Debentures (Series C) - linked to the Israeli CPI	NIS	4.60%	2013	245	243	326	341
Debentures (Series D) - linked to the Israeli CPI	NIS	5.19%	2017	827	822	1,321	1,385
Total interest- bearing liabilities				3,642	3,679	3,519	3,730

Note 14 – Loans and borrowings (cont'd)

Credit facility agreement

In March 2006, the Company entered into an unsecured syndicated facility agreement with a number of Israeli and international banks arranged by Citibank N.A. and Citibank International plc, which provided for a term loan of $280 million and a revolving credit facility of up to $70 million. On April 10, 2006, the Company converted part of the outstanding dollar loan into a NIS loan. The Company repaid an amount of $137.5 million (comprised of $110 million on account of the term loan and $27.5 million on account of the revolving credit facility) and the Company received in exchange an amount of NIS 633 million (comprised of a term loan in the amount of NIS 506 million and a revolving credit facility in the amount of NIS 127 million). In November 2007, the Company performed a voluntary partial prepayment of 50% of the outstanding term loan, in a principal amount of US$ 140 million (comprising of approximately US$ 85 million principal amount denominated in US$ and approximately NIS 253 million principal amount denominated in NIS). As of December 31, 2007 the outstanding principal amount of the term loan is US$ 140 million (comprising of approximately US$ 85 million denominated in US$ and approximately NIS 253 million denominated in NIS).

As of December 31, 2007, the average interest rate on the outstanding dollar loans was three-month LIBOR + 0.80% per year and the average interest rate on the outstanding NIS loans was three month TELBOR + 0.80% + 0.20% per year.

On March 10, 2008 the Company voluntarily prepaid the balance of the outstanding amounts under its credit facility, in a principal amount of $140 million (comprising of $85 million denominated in US$ and approximately NIS 253 million denominated in NIS), following which, the credit facility and all covenant restrictions were terminated.

Debentures

In December 2005, the Company issued NIS 1,037 millions principle amount debentures (Series A) to institutional investors at par value. The debentures are payable in nine equal semi-annual installments, on July 5 of each of the years 2008 through 2012 and on January 5 of each of the years 2009 through 2012. The debentures bear an annual interest of 5.00%. The interest is to be paid on January 5 of each of the years 2007 through 2012 and on July 5 of each of the years 2006 through 2012 for the six-month period ended on the day prior to each date as stated. Both the principal amount and interest are linked to the CPI for November 2005.

In December 2005, the Company issued NIS 715 million principle amount debentures (Series B) to institutional investors at par value. The debentures are payable in five equal annual installments, on January 5 of each of the years 2013 through 2017. The debentures bear an annual interest of 5.30%. The interest is to be paid on January 5 of each of the years 2007 through 2017 for the twelve-month period ended on the day prior to each date as stated. Both the principal amount and interest are linked to the CPI for November 2005.

On May 29, 2006, the Company issued to institutional investors additional Series A debentures in the aggregate principle amount of NIS 28 million, in exchange for consideration of NIS 29 million, and additional Series B debentures in the aggregate principle amount of NIS 210 million in exchange for consideration of NIS 221 million.

Note 14 – Loans and borrowings (cont'd)

Debentures (cont'd)

In October 2007, the Company issued debentures Series C to the public in the aggregate principle amount of NIS 245 million in exchange for a net consideration of NIS 244 million. The debentures are payable in nine semi-annual installments, on March 1 and September 1 of each of the years 2009 through 2012, and on March 1, 2013. The debentures bear an annual interest of 4.60%. The interest is to be paid in semi- annual installments on March 1 and September 1 of each of the years 2008 through 2012 and on March 1, 2013. Both the principal amount and interest are linked to the CPI for August 2007.

In October 2007, the Company issued new debentures Series D to the public investors in the aggregate principle amount of NIS 827 million in exchange for a net consideration of NIS 823 million. The debentures are payable in five equal annual installments, on July 1 of each of the years 2013 through 2017. The debentures bear an annual interest of 5.19%. The interest is to be paid in annual installments on July 1 of each of the years 2008 through 2017. Both the principal amount and interest are linked to the CPI for August 2007.

In February 2008, the Company issued, in a private placement to institutional investors, additional debentures of Series C, in a principal amount of NIS 81 million and additional debentures of Series D, in a principal amount of approximately NIS 494 million, in exchange for a total consideration of NIS 600 million.

Note 15 - Post employment benefits

A. The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israeli severance pay law .The Company's liability is fully provided by monthly deposits with severance pay funds, insurance policies and by an accrual. For the majority of the Company employees the payments to the pension funds and insurance companies discharge the Company's obligation to the employees as required by the Severance Pay Law in connection with Section 14. Accumulated amounts in the pension funds and with the insurance companies are not under the control or administration of the Company, and accordingly, neither those amounts nor the corresponding accrual for severance pay are reflected in the balance sheet, this plan for employees that are under section 14 is accounted for as defined contribution plan. The obligation of the Company, under law and labor agreements, for termination benefits to employees not covered by the aforementioned pension or insurance plans is NIS 1 millions and NIS 3 million as of December 31, 2008 and 2007 respectively as included in the balance sheet, under other long term liabilities. The calculation for this liability is based on salary components that according to management estimation creates a liability for severance pay.

B. The severance pay expenses for the years ended December 31, 2008 and 2007 were approximately NIS 29 million and NIS 28 million, respectively.

C. In January 2008, under an order issued by the Ministry of Industry, Commerce and Labor, all Israeli employers are obligated to contribute to a pension plan amounts equal to a certain percentage of the employee's wages, for all employees, after a certain minimum period of employment. The Company is complying with this obligation. Under the new order, additional employees are entitled to contribution to a pension plan, which shall increase gradually until 2013 and up to 5% of the employee's wages, with additional identical contribution for severance pay. The Company does not expect that the new order will have a material impact on the financial statements.

Note 16 - Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital amount	Cash flow hedge reserve	Retained earnings	Total
	NIS millions			
Balance as of January 1, 2007	1	(24)	620	597
Total recognized income and expenses	-	(9)	875	866
Share based payments	-	-	29	29
Cash dividend paid	-	-	(655)	(655)
Balance as of December 31, 2007	**1**	**(33)**	**869**	**837**
Total recognized income and expenses	-	22	985	1,007
Share based payments	-	-	28	28
Cash dividend paid	-	-	(1,530)	(1,530)
Balance as of December 31, 2008	**1**	**(11)**	**352**	**342**

Share capital

	2007	2008
	NIS	
On issue at 1 January	975,000	975,047
Exercise of share options	47	8,446
On issue at 31 December	975,047	983,493

Ordinary shares of NIS 0.01 par value each

At December 31, 2008, the authorized share capital comprised of 300 million ordinary shares (2007- 300 millions). The holders of ordinary shares are entitled to receive dividends as declared.
The calculation of basic earnings per share was based on the profit attributable to ordinary share holders and weighted average number of ordinary shares during the year. The calculations of diluted earnings per share was based on the profit attributable to ordinary shares in addition to shares that would be issued resulting from the exercises of all options.

Cash flow hedge reserve

The Cash flow hedge reserve is comprised of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transaction that have not yet occurred.

Note 16 - Capital and reserves (cont'd)

Dividends

Dividends declared and paid during the reported period are as follows:

	2008 NIS millions
7.18 NIS per share paid in April 2008	700
2.65 NIS per share paid in June 2008	258
2.76 NIS per share paid in September 2008	270
3.07 NIS per share paid in November 2008	302
	1,530

	2007 NIS millions
2.03 NIS per share paid in June, 2007	198
2.06 NIS per share paid in September, 2007	201
2.63 NIS per share paid in November, 2007	256
	655

On March 1, 2009, subsequent to the balance sheet date, the Company's Board of Directors declared a cash dividend in the amount of NIS 2.75 per share, totaling approximately NIS 270 million, to be paid on March 30, 2009, to the shareholders of the Company of record at the end of the trading day in the NYSE on March 16, 2009.

Note 17 – Share-based payments

A. In September 2006, the Company's Board of Directors approved a share based incentive plan ("the plan") for employees, directors, consultants and sub-contractors and to those of the Company's affiliates. The plan has an initial pool of 2,500,000 shares over which options and restricted stock units could be granted.

B. In October and November 2006, the Company granted options to purchase an aggregate of 2,414,143 ordinary shares at an exercise price of $12.60 per share. Among those grants were options to purchase up to 450,000 ordinary shares granted to the Chairman of the Company's Board of Directors and an additional 450,000 options to the Company's Chief Executive Officer. The remainder of the option grants was made to other Company senior employees. Options not exercised within 6 years of the grant date, will expire.

In March 2007, the Company granted options to purchase an aggregate of 30,786 ordinary shares at an exercise price of $12.60 per share to senior employees of the Company, under the terms of the plan.

As a result of a dividend adjustment mechanism, the exercise price for all these options was adjusted to $6.49 per share as of December 31, 2008 ($10.93 per share as of December 31, 2007).

C. In August 2008, the Company granted options to purchase an aggregate of 27,500 ordinary shares at an exercise price of $25 per share to senior employees of the Company, under the terms of the plan. As a result of a dividend adjustment mechanism, the exercise price for these options was adjusted to $23.43 per share as of December 31, 2008.

Options granted under the plan are to be vested over a period of four years, in addition, the plan included an acceleration clause of the vesting schedule. The acceleration clause stated that upon DIC's share ownership of the Company's outstanding share capital decreasing to less than 50.01% all non-vested options will vest immediately. In 2008 the Company amended the terms of the plan and revised the 50.01% threshold to a trigger when DIC ceases to control (as such term is defined in the Israeli Securities Law, 1968). The Company modified the vesting conditions in a manner that was considered not beneficial to the employee. According to the original plan, DIC's holdings decreasing to approximately 46.90% resulted the Company to accelerate the recognition of the remaining expenses related to all the options during 2008.

Grant date/employees entitled	Number of instruments In thousands	Vesting conditions	Contractual life of options
Share options granted at October-November 2006 to managers and senior employees	2,414	Four equal installments over four years of employment	6 years
Share options granted at March 2007 to senior employees	31	Four equal installments over four years of employment	6 years
Share options granted at August 2008 to senior employees	27	Four equal installments over four years of employment	6 years

Note 17 – Share-based payments (cont'd)

The total compensation expense related to the options granted during is approximately NIS 57 million. During the year ended December 31, 2008 approximately NIS 28 million were recognized as an expense (2007- NIS 29 million).

The changes in the balance of the options were as follows:

	Number of options	Weighted average of exercise price (US Dollars)	Number of options	Weighted average of exercise price (US Dollars)
	2007		2008	
Balance as at January 1	2,414,143	10.93	2,396,896	10.93
Granted during the year	30,786	10.93	27,500	24.09
Forfeited during the year	(40,078)	12.02	(4,125)	7.78
Exercised during the year	(7,955)	30.18	(1,145,408)	7.292
Total options outstanding as at December 31	2,396,896	10.93	1,274,863	6.857
Total of exercisable options as at December 31	588,270	10.93	42,282	6.492

The weighted average of the remaining contractual life of options outstanding as at December 31, 2008, is 3 years and 10 months (December 31,2007 – 4 years and 10 months).

The weighted average share price at the date of exercise for share options exercised in 2008 was 28.19$ (2007 - 29.17$).

	2007	2008
Fair value of share options and assumptions:		
Fair value at grant date	5.76$	11.76$
Fair value assumptions:		
Exercise price	12.6$	25$
Expected volatility (weighted average life)	26.69%	24%
Option life (expected weighted average life)	4.25 years	4 years
Risk free interest rate	5.01%	3.06%

Note 18 - Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31 2007	December 31 2008
	NIS millions	NIS millions
Trade receivables including long term amounts	1,862	2,019
Loans and other receivables including long term amounts	59	50
Cash and cash equivalents	911	275
Interest rate swaps	5	-
Forward exchange contracts on foreign currencies	15	41
Forward exchange contracts on CPI	24	27
	2,876	2,412

The maximum exposure to credit risk for trade receivables arising from sales transactions at the reporting date by type of customer is:

	December 31 2007	December 31 2008
	NIS millions	NIS millions
Receivable from subscribers	1,734	1,970
Receivables from distributors and other operators	184	98
Other	3	1
	1,921	2,069

Impairment losses

The aging of loans and receivables at the reporting date was as follows:

	Gross	Impairment	Gross	Impairment
	2007		2008	
	NIS millions	NIS millions	NIS millions	NIS millions
Not past due	1,814	10	1,888	18
Past due less than one year	114	33	180	46
Past due more than one year	163	127	189	124
	2,091	170	2,257	188

Note 18 - Financial Instruments (cont'd)

Impairment losses (cont'd)
The movement in the allowance for impairment in respect to trade receivables during the year was as follows:

	2007	2008
	NIS millions	NIS millions
Balance at January 1	182	170
Impairment loss recognized	(28)	(32)
Additions	16	50
Balance at December 31	170	188

The impairment loss recognized of NIS 32 million and NIS 28 million for the year ended 31 December 2008 and 2007, respectively, relates to the Company's estimate of incurred losses in respect of receivables from subscribers.

The allowance accounts in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the trade receivable directly.

Liquidity risk
The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2008	Carrying amount	Contractual Cash flows	1st year	2nd year	3rd year	4-5 years	More than 5 years
				NIS millions			
Debentures	(3,848)	(4,749)	(516)	(500)	(483)	(1,105)	(2,145)
Trade and other payables	(843)	(843)	(843)	-	-	-	-
Interest rate swaps	(12)	(12)	(5)	(7)	-	-	-
Forward exchange contracts on foreign currencies	(14)	(14)	(14)	-	-	-	-
Forward exchange contracts on CPI	(28)	(28)	(28)	-	-	-	-
	(4,745)	(5,646)	(1,406)	(507)	(483)	(1,105)	(2,145)

Note 18 - Financial Instruments (cont'd)

Liquidity risk (cont'd)

December 31, 2007	Carrying amount	Contractual Cash flows	1st year	2nd year	3rd year	4-5 years	More than 5 years
				NIS millions			
Bank loans	(577)	(637)	(270)	(249)	(118)	-	-
Debentures	(3,193)	(4,048)	(268)	(446)	(432)	(819)	(2,083)
Trade and other payables	(1,113)	(1,113)	(1,113)	-	-	-	-
Cross currency swaps	(66)	(66)	(26)	(27)	(13)	-	-
Forward exchange contracts on foreign currencies	(28)	(28)	(28)	-	-	-	-
	(4,977)	(5,892)	(1,705)	(722)	(563)	(819)	(2,083)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

	Carrying amount	Contractual Cash flows	1st year	2nd year	3rd year	4-5 years	More than 5 years
				NIS millions			
December 31, 2008							
Forward exchange contracts:							
Assets	14	14	14	-	-	-	-
Liabilities	(2)	(2)	(2)	-	-	-	-
	12	12	12	-	-	-	-
December 31, 2007							
Forward exchange contracts:							
Assets	-	-	-	-	-	-	-
Liabilities	(27)	(27)	(27)	-	-	-	-
	(27)	(27)	(27)	-	-	-	-

Note 18 - Financial Instruments (cont'd)

Liquidity risk (cont'd)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss:

	Carrying amount	Contractual Cash flows	1st year	2nd year	3rd year	4-5 years	More than 5 years
				NIS millions			
December 31, 2008							
Forward exchange contracts:							
Assets	14	14	14	-	-	-	-
Liabilities	(2)	(2)	(2)	-	-	-	-
	12	12	12	-	-	-	-
December 31, 2007							
Forward exchange contracts:							
Assets	-	-	-	-	-	-	-
Liabilities	(27)	(27)	(17)	(3)	(2)	(3)	(2)
	(27)	(27)	(17)	(3)	(2)	(3)	(2)

Currency risk and CPI

The Company's exposure to foreign currency risk and CPI was as follows based on notional amounts:

	December 31, 2007			December 31, 2008		
	In or linked to foreign currencies (mainly USD)	NIS linked to CPI	NIS unlinked	In or linked to foreign currencies (mainly USD)	NIS linked to CPI	NIS unlinked
		NIS millions			NIS millions	
Current assets						
Cash and cash equivalents	10	-	901	6	-	269
Trade receivables, net	-	-	1,385	-	-	1,478
Other receivables, including derivatives	-	1	46	-	1	68
Non- current assets						
Long-term receivables	-	18	515	-	18	572
Current liabilities						
Short-term borrowings	(131)	(121)	(101)	-	(329)	-
Trade payables and accrued expenses	(193)	-	(760)	(108)	-	(569)
Other current liabilities, including derivatives	(1)	(89)	(255)	-	(118)	(220)
Non- current liabilities						
Long-term loans from banks	(196)	-	(147)	-	-	-
Debentures	-	(2,983)	-	-	(3,401)	-

Note 18 - Financial Instruments (cont'd)

Currency risk (cont'd)

Following is data regarding the CPI and currency exchange rate:

	December 31 2007	December 31 2008
CPI (in points)	191.2	198.4
Exchange rate of US$ in NIS	3.846	3.802

	2007	2008
Change in %		
CPI	3.4%	3.8%
Exchange rate of US$ in NIS	(9.0%)	(1.1%)

Sensitivity analysis

A change of the CPI as at December 31, 2008 and 2007 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

		Equity	Net income
	Change	NIS millions	NIS millions
December 31, 2008			
Increase in the CPI of	2.0%	(27)	(27)
Increase in the CPI of	1.0%	(14)	(14)
Decrease in the CPI of	(1.0%)	14	14
Decrease in the CPI of	(2.0%)	27	27
December 31, 2007			
Increase in the CPI of	2.0%	(19)	(19)
Increase in the CPI of	1.0%	(9)	(9)
Decrease in the CPI of	(1.0%)	2	2
Decrease in the CPI of	(2.0%)	3	3

Sensitivity of change in foreign exchange rate is immaterial as at December 31,2008 and 2007.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
	2007	2008
	NIS millions	NIS millions
Fixed rate instruments		
Financial assets	8	8
Financial liabilities	(3,104)	(3,730)
	(3,096)	(3,722)
Variable rate instruments		
Financial assets	911	275
Financial liabilities	(575)	-
	336	275

Note 18 - Financial Instruments (cont'd)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Company does not designate derivative (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	Equity				Profit or loss			
	1.0% increase	1.0% decrease	0.5% increase	0.5% decrease	1.0% increase	1.0% decrease	0.5% increase	0.5% decrease
	NIS millions				NIS millions			
December 31, 2008								
Variable rate instruments	2	(2)	1	(1)	2	(2)	1	(1)
Interest rate swaps	2	(2)	1	(1)	2	(2)	1	(1)
Cash flow sensitivity (net)	4	(4)	2	(2)	4	(4)	2	(2)
December 31, 2007								
Variable rate instruments	2	(2)	1	(1)	2	(2)	1	(1)
Interest rate swaps	3	(3)	1	(1)	3	(3)	1	(1)
Cash flow sensitivity (net)	5	(5)	2	(2)	5	(5)	2	(2)

Note 18 - Financial Instruments (cont'd)

Fair Values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	December 31, 2007			December 31, 2008		
	Carrying amount	Fair value	Interest rates used for determining fair value	Carrying amount	Fair value	Interest rates used for determining fair value
		NIS millions			NIS millions	
Assets						
Cash and cash equivalents	911	911		275	275	
Trade receivables, net	1,385	1,385		1,478	1,478	
Other receivables, including derivatives	47	47		69	69	
Long-term receivables	533	533	5.0%	590	590	5.0%
Liabilities						
Trade payables and accrued expenses	(953)	(953)		(677)	(677)	
Other current liabilities, including derivatives	(254)	(254)		(220)	(220)	
Long-term loans from banks including current maturities and accrued interest	(577)	(577)	5.0%-6.0%	-	-	
Debentures including current maturities and accrued interest	(3,193)	(3,237)	3.3%-4.7%	(3,848)	(3,877)	3.9%-4.6%
	(2,101)	(2,145)		(2,333)	(2,362)	

Note 19 - Revenues

Composition

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Revenues from handsets, net	635	745
Revenues from services	5,415	5,672
	6,050	6,417
Additional information		
Revenues from handsets on an installments basis	596	725

Note 20 - Cost of Revenues

Composition

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
According to source of income:		
Cost of revenues from handsets	800	832
Cost of revenues from services	2,577	2,570
	3,377	3,402
According to its components:		
Purchase of handsets	906	691
Changes in inventory	(113)	126
Write-down of inventory	7	15
	800	832
Rent and related expenses	305	290
Salaries and related expenses	158	163
Fees to other operators and others	980	986
Cost of value added services	324	361
Depreciation and amortization	532	500
Royalties and fees (see Note 27(1)b)	172	160
Other	106	110
	2,577	2,570
	3,377	3,402

Note 21 - Selling and Marketing Expenses

Composition

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Salaries and related expenses	286	321
Commissions	124	85
Advertising and public relations	121	111
Depreciation and amortization	7	41
Other	147	143
	685	701

Note 22 - General and Administrative Expenses

Composition

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Salaries and related expenses	160	165
Depreciation and amortization	236	210
Rent and maintenance	77	79
Data processing and professional services	67	59
Allowance for doubtful accounts	16	50
Other	97	96
	653	659

Note 23 - Other (income) expenses, net

Composition

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Capital loss from sale of property, plant and equipment	4	1
Other	11	-
Other expense	15	1
Capital gain from sale of property, plant and equipment	-	(10)
Capital gain from sale of land	-	(9)
Other	(12)	(11)
Other income	(12)	(30)
Net other (income) expense recognized in profit and loss	3	(29)

Note 24 - Financial income and expenses

Composition

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Interest income on bank deposits	23	10
Interest income on trade and other receivables	41	49
Net foreign exchange gain	67	21
Net change in fair value of financial assets at fair value through profit and loss	-	3
Net change in embedded derivatives	9	-
Finance income	140	83
Interest expenses on long term liabilities	(199)	(206)
Linkage expenses to CPI on long term liabilities	(50)	(161)
Net change in fair value of financial assets at fair value through profit and loss	(38)	-
Net change in embedded derivatives	-	(26)
Finance expense	(287)	(393)
Net finance expense recognized in profit and loss	(147)	(310)

Note 25 - Income tax

A. The Company is assessed for tax purposes on the basis of unconsolidated tax returns. The tax is computed on the basis of the Company's results in Israeli currency as determined for statutory purposes.

B. Untill December 31st 2007 the Company was assessed for tax purposes according to the Income Tax Law (Adjustments for Inflation), 1985 (hereinafter "the Law"), the purpose of which is to measure the results for tax purposes on a real basis and to prevent taxation of inflationary profits. The adjustment of nominal profit for tax purposes is not necessarily the same as the adjustment according to IFRS rules and, as a result, differences occur between the income reported in the financial statements and the adjusted income for tax purposes

.

On February 26, 2008 the Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Adjustments Law will no longer be applicable subsequent to the 2007 Tax Year, except for the transitional provisions whose objectives are to prevent distortion of the taxation calculations.

In addition, according to the amendment, commencing 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on protected assets and carry forward tax losses will no longer be linked to the Index, with these balances being adjusted to the Index through the end of the 2007 Tax Year, and linkage thereon ceasing from the 2008 Tax Year onwards.

C. On July 25, 2005, the Knesset passed the Law for Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) ("Amendment 147"), which provides for an additional gradual reduction of the Corporate tax rates in the following manner: in 2006 the tax rate will be 31%, in 2007 the tax rate will be 29%, in 2008 the tax rate will be 27% and from 2009 the tax rate will be 26% and from 2010 onward the tax rate will be 25%. In addition, commencing from 2010, upon reduction of the Companies Tax rate to 25%, every real capital gain will be subject to tax at the rate of 25%.

D. Reconciliation of income tax expense:

A reconciliation of the theoretical tax expense computed on earnings before taxes at the statutory tax rate and the actual income tax provision is presented as follows:

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Income before income taxes as per the income statement	1,185	1,374
Tax rate	29%	27%
Tax calculated according to the main tax rate	344	371
Increase (decrease) in tax resulting from:		
Non-deductible interest expenses (see Note 25I)	(56)	-
Other non-deductible expenses	13	13
Other, net	9	5
	310	389

Note 25 - Income tax (cont'd)

E. Deferred taxes

	December 31	
	2007	2008
	NIS millions	NIS millions
Capital gain	-	(3)
Provisions for employee benefits, net	(1)	(1)
Allowance for doubtful debts	46	47
Embedded derivatives	(3)	-
Hedging transactions	11	4
Property, plant and equipment and intangible assets	(202)	(203)
	(149)	(156)

The deferred taxes are calculated based on the tax rates expected to apply on the reversal date as indicated above.

Deferred tax assets and liabilities are attributable to the following items:

	Provisions of employee benefits	Allowance for doubtful debts	Hedging transactions	Property, Plant and equipment and intangible assets	Capital gains	Embedded derivatives	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance of deferred tax asset (liability) as at January 1, 2007	**-**	**53**	**10**	**(216)**	**-**	**-**	**(153)**
Recognized in profit or loss	(1)	(7)	-	14	-	(3)	3
Recognized in equity	-	-	1	-	-	-	1
Balance of deferred tax asset (liability) as at December 31, 2007	**(1)**	**46**	**11**	**(202)**	**-**	**(3)**	**(149)**
Recognized in profit or loss	-	1	-	(1)	(3)	3	-
Recognized in equity	-	-	(7)	-	-	-	(7)
Balance of deferred tax asset (liability) as at December 31, 2008	**(1)**	**47**	**4**	**(203)**	**(3)**	**-**	**(156)**

F. Income tax in the income statement

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Current taxes	314	390
Deferred taxes	(4)	(1)
	310	389

All income before taxes and income tax expenses for all of the reporting periods are local in Israel.

Note 25 - Income Tax (cont'd)

G. Losses for tax purposes

One of the Company's subsidiaries has a carried forward tax loss in the amount of NIS 2 million, according the tax assessments signed in 2008. The Company does not anticipate utilization of this loss, therefore no deferred tax asset has been recorded.

The Company has final tax assessments until and including the 2005 tax year.

H. Court ruling regarding deductibility for tax purposes of financing expenses

On November 20, 2006, the Israeli Supreme Court overturned a previous ruling made by the Israeli District Court regarding the deductibility for tax purposes of financing expenses that might be attributed by the Israeli tax authorities to the financing of dividends. Following this ruling, the Company recorded in 2006 an additional tax provision of NIS 56 million, based on the possibility that part of the Company's financing expenses accrued in 2006 will not be recognized as a deductible expense for tax purposes. For tax purposes, as of the date of approval of the financial statements for the year ended December 31, 2006, the level of certainty required in order to recognize these expenses did not exist.

In October 2007, the Israeli Supreme Court issued two new rulings readdressing its previous ruling of November 2006 regarding the deductibility of financing expenses for tax purposes, that might be attributed by the Israeli Tax Authority to a financing of dividends. As a result of these rulings and based on the Company's legal counsels' opinion, the Company has released the aforesaid tax provision and reduced the income tax expenses for 2007 by NIS 56 million.

Note 26 - Operating leases

Non-cancelable operating lease rentals are payable as follows:

	December 31 2008
	NIS millions
Less than one year	221
Between one and five years	397
More than five years	48
	666

During the year ended 31 December 2008 NIS 262 million (including linkage to CPI of NIS 5 million) was recognized as an expense in profit and loss in respect of operating leases (2007 – NIS 256 million, including linkage to CPI of NIS 5 million).

Major operating lease and service agreements:

a. Office buildings and warehouses – there are lease agreements for periods of up to 5 years and eleven months.

b. Switching stations – there are lease agreements for switching station locations for periods of up to 8 years.

c. Cell sites – there are lease agreements for cell sites for periods of up to 18 years and four months.

d. Service centers, retail stores and stands – there are lease agreements for service and installation centers and stands for periods of up to 8 years and seven months.

e. Transmission services for cell sites and switches.

f. Motor vehicles lease for a period of 3 years.

Note 27 - Commitments

1. The Company has commitments regarding the license it was granted in 1994, most of which are:

   a. Not to pledge any of the assets used to execute the license without the advance consent of the Ministry of Communications.

   b. To pay the State of Israel royalties equal to 2% of the Company's revenues generated from telecommunications services, less payments transferred to other license holders for interconnect fees or roaming services, sale of handsets and losses from bad debt. The rate of these royalties has decreased in recent years, from 4.5% in 2002, to 4% in 2003, to 3.5% in 2004 and 2005, to 3% in 2006, to 2.5% in 2007 and to 2% in 2008. The royalty rate will continue to be reduced by 0.5% per year, until reaching a rate of 1%.

   c. The Company's shareholders' joint equity, combined with the Company's equity, shall not amount to less than $200 million. Regarding this stipulation, a shareholder holding less than 10% of the rights to the Company's equity is not taken into account.

   The Company is in compliance with the above conditions.

2. In September 2005, the Company signed an agreement with Ericsson Israel Ltd. according to which the Company will acquire a UMTS radio access network and ancillary products and services. The Company is obligated to purchase maintenance services for 5 years from the launch of the system (until 2011) and the Company has an option to purchase maintenance services for 20 years from the launch of the Systems (until 2026), including all the required services for establishment and maintenance of the system (including receipt of updates and upgrades for the system). The Company agreed to purchase 60% of cell sites by September 2010 from Ericsson. The aggregate scope of the agreement is $27.5 million payable over five years. Under the agreement the parties generally have limited liability for direct damages of up to 40% of the value of the agreement.

3. Be'eri Printers provides the Company's printing supplies and invoices as well as the distribution, packaging and delivery of invoices and other mail to the postal service distribution centers. The Company entered into an agreement with Be'eri Printers - Limited Partnership and with Be'eri Technologies (1977) Ltd., or together Be'eri, for printing services in August 2003. Under the terms of the agreement, the Company committed to purchase from Be'eri a minimum monthly quantity of production and distribution services which may be reduced if the Company modifies its printed invoice delivery policy. The agreement is valid until December 2010.

4. As at December 31, 2008, the Company has commitments to purchase equipment for the communications' network and cellular telephone equipment, at an amount estimated at NIS 119 million.

Note 28 – Contingencies

A. Contingent liabilities

All sums indicated for the lawsuits below are as at the filing date thereof, unless specifically mentioned otherwise.

In the ordinary course of business, the Company is involved in a number of lawsuits. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of counsel and on the Company's estimate of the probable settlements amount that are expected to be incurred, if such a settlement will be agreed by both parties.

The litigation and claims that could have a significant effect on the Company's financial position are described below:

1. In September 2000, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv–Jaffa by one of the Company's subscribers in connection with VAT charges in respect of insurance premiums and the provision of insurance services that were allegedly provided not in accordance with the law. In February 2006, the motion for certification as a class action was denied. In March 2006, an appeal was filed with the Supreme Court challenging the dismissal. In December 2008, the appeal was partially allowed and the claim was returned for further consideration by the District Court of certain issues determined by the Supreme Court. If the lawsuit is certified as a class action, the amount claimed is NIS 402 million.

2. In August 2001, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv–Jaffa by one of the Company's subscribers in connection with the Company's outgoing call tariffs on the 'Talkman' (pre-paid) plan and the collection of a distribution fee for 'Talkman' calling cards. In June 2004, the motion for certification as a class action was denied. In September 2004, this decision was appealed to the Israeli Supreme Court. In July 2007, pursuant to the appeal, the Israeli Supreme Court granted a petition filed by both parties with mutual consent, in light of the Israeli Class Action Law, 2006, to resubmit the purported class action lawsuit for consideration in the District Court of Tel Aviv-Jaffa. If the claim is certified as a class action, the amount claimed is NIS 135 million.

3. In August 2001, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv-Jaffa by one of the Company's subscribers in connection with air time tariffs and subscriber fees that were allegedly collected not in accordance with the agreement with the subscribers. The lawsuit was amended (after being transferred to the District Court of Central Region) in 2006. In September 2008, the motion for certification as a class action was dismissed with prejudice. Had the lawsuit been certified as a class action, the amount claimed was estimated by the plaintiff to be NIS 1.26 billion, plus punitive damages at a rate of not less than 100% of the amount of the judgment.

Note 28 – Contingencies (cont'd)

A. Contingent liabilities (cont'd)

4. In December 2002, a purported class action lawsuit was filed against the Company and another cellular operator in the District Court of Tel-Aviv–Jaffa in connection with the Company's incoming call tariff to subscribers of other operators when calling the Company's subscribers during the period prior to the regulation of interconnect fees. In December 2008, the motion for certification as a class action was dismissed with prejudice. In January 2009, subsequent to the balance sheet date, an appeal was filed with the Supreme Court challenging the dismissal. If the lawsuit is certified as a class action, the amount claimed is NIS 1.6 billion.

5. In April 2003, a purported class action lawsuit was filed against two other cellular operators and the Company with the District Court of Tel-Aviv–Jaffa in connection with the Company's incoming SMS tariff to subscribers of other operators when sending SMS messages to the Company's subscribers during the period before the regulation of SMS interconnect fees. If the lawsuit is certified as a class action, the amount claimed is NIS 90 million, without specifying the amount claimed from the Company individually.

6. In August 2003, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv–Jaffa (and later transferred to the District Court of Central Region) by one of the Company's subscribers in connection with the Company's method of rounding the rates of calls, the Company's method of linking rates of calls to the consumer price index and an alleged unlawful approval of a certain rate that was approved by the Ministry of Communications in 1996. In March 2006, the plaintiff filed an amended statement of its claim, following the amendment to the Consumer Protection Law in December 2005, to which the Company has replied. If the lawsuit is certified as a class action, the amount claimed is NIS 150 million.

7. In August 2006, a purported class action lawsuit was filed against the Company (and two other cellular operators) in the District Court of Tel-Aviv–Jaffa, by plaintiffs alleging to be subscribers of the defendants, in connection with sums allegedly unlawfully charged for a segment of a call that was not actually carried out. If the lawsuit is certified as a class action, the total amount claimed is estimated by the plaintiffs is exceeding NIS 100 million, without specifying the amount claimed from the Company.

8. In November 2006, a purported class action lawsuit was filed against the Company, a third party that had provided services to customers of the Company ("the Supplier") and other parties allegedly related to the supplier, in the District Court of Tel-Aviv–Jaffa by a subscriber of the Company. The lawsuit is in connection with sums allegedly charged by the Company in respect of content services of the Supplier without the subscriber's consent. If the lawsuit is certified as a class action, the total amount claimed from the Company, the Supplier and other parties is estimated by the plaintiffs as approximately NIS 18 million, in addition to another NIS 10 million for mental anguish.

9. In January 2007 a purported class action lawsuit was filed against the Company, two other cellular operators and two landline operators in the District Court of Jerusalem by three plaintiffs, claiming to be subscribers of some of the defendants, in connection with an alleged violation of the defendants' statutory duty to allow their subscribers to transfer with their number to another operator, thus, allegedly causing monetary damage to the subscribers. In March 2008 the motion for certification as a class action was dismissed without prejudice and the lawsuit was dismissed with prejudice, following a request of the plaintiffs to withdraw their claim. Had the lawsuit been certified as a class action, the total amount claimed was estimated by the plaintiffs to be at least NIS 10.6 billion.

Note 28 – Contingencies (cont'd)

A. Contingent liabilities (cont'd)

10. In February 2007, a purported class action was filed against the Company in the District Court of Tel-Aviv, by a plaintiff claiming to be a customer of the Company. The plaintiff claimed that the Company unlawfully collected VAT amounts from subscribers who are residents of Eilat. In May 2007, the motion for certification as a class action and the lawsuit were dismissed with prejudice. Had the lawsuit been certified as a class action, the amount claimed from the Company was estimated by the plaintiff at approximately NIS 33 million.

11. In February 2007, a purported class action lawsuit was filed against the Company (and two other cellular operators) in the District Court of Tel-Aviv by plaintiffs alleging to be subscribers of the three defendants, in connection with sums that were allegedly overcharged in breach of the cellular operators' licenses, based on charge units larger than the charge units the defendants were allegedly authorized to charge under their licenses for calls initiated or received by subscribers while abroad. If the lawsuit is certified as a class action, the total amount claimed from the cellular operators is estimated by the plaintiffs to be approximately NIS 449 million, of which approximately NIS 193 million is attributed to the Company.

12. In April 2007, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv-Jaffa, by two plaintiffs alleging to be subscribers of the Company in connection with allegations that the Company, unlawfully and in violation of its license, raised its tariffs in pricing plans that include a commitment to purchase certain services for a fixed period. In February 2008 the lawsuit was dismissed with prejudice. Had the lawsuit been certified as a class action, the amount claimed was estimated by the plaintiffs at approximately NIS 230 million.

13. In May 2007, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv-Jaffa, by two plaintiffs alleging to be subscribers of the Company in connection with allegations that the Company, unlawfully and in violation of its license, raised its tariffs in pricing plans that include a commitment to purchase certain services for a fixed period. If the claim is recognized as a class action, the amount claimed is approximately NIS 875 million.

14. In September 2007, a purported class action lawsuit was filed against the Company (and two other cellular operators) in the District Court of Jerusalem, by three plaintiffs who claim to be subscribers of the defendants. The plaintiffs claim that the defendants charged their subscribers for SMS messages sent by them to subscribers who disabled their ability to receive SMS messages and/or misled the senders by an indication on their cell phones that such messages were sent. In July 2008, the purported class action was dismissed without prejudice pursuant to a motion to withdraw the claim filed by the plaintiffs with the defendants' consent. Had the lawsuit been certified as a class action, the total amount claimed from all three defendants was estimated by the plaintiffs to be approximately NIS 182.5 million, without specifying the amount claimed from the Company.

15. In November 2007, a purported class action lawsuit was filed against the Company in the District Court of Central Region, by a plaintiff alleging to be a subscriber of the Company in connection with allegations that the Company charged its subscribers for content services without obtaining their specific consent in a manner which complies with the provisions of its general license. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be NIS 432 million.

Note 28 – Contingencies (cont'd)

A. Contingent liabilities (cont'd)

16. In December 2007, a purported class action lawsuit was filed against the Company (and two other cellular operators) in the District Court of Tel Aviv, by plaintiffs alleging to be residing next to cell sites of the defendants which the plaintiffs claim were built in violation of the law. The plaintiffs allege that the defendants have created environmental hazards by unlawfully building cell sites and therefore demand that the defendants compensate the public for damages (other than personal damages, such as depreciation of property and/or health related damages which are excluded from the purported class action), demolish existing unlawfully built cell sites and refrain from unlawfully building new cell sites. If the lawsuit is certified as a class action, the compensation claimed from the defendants (without any allocation of this amount among the defendants) is estimated by the plaintiffs to be NIS 1 billion.

17. In December 2007, a purported class action lawsuit was filed against the Company in the District Court of Central Region, by plaintiffs claiming to be the subscribers of the Company, in connection with sums the Company allegedly overcharged, when the Company raised its tariffs in certain calling plans. If the lawsuit is recognized as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 44 million.

18. In February 2008 a purported class action lawsuit was filed against the Company in the District Court of Central Region, by plaintiffs claiming to be subscribers of the Company, in connection with sums the Company allegedly overcharged, when the Company raised its tariffs for SMS packages. If the lawsuit is recognized as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 43 million.

19. In March 2008 a purported class action lawsuit was filed against the Company in the District Court of Central Region, by plaintiffs alleging to be the Company's subscribers in connection with allegations that the Company has unlawfully charged its' subscribers for providing them with call details records. If the lawsuit is certified as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 440 million.

20. In April 2008 a purported class action lawsuit was filed against the Company in the District Court of Tel Aviv-Jaffa, by plaintiffs alleging to be subscribers of the Company in connection with allegations that the Company overcharged certain subscribers entitled to rebates under their agreement with the Company, by miscalculating the rebate. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 100 million.

21. In May 2008 a purported class action lawsuit was filed against the Company and two other cellular operators in the District Court of Tel Aviv-Jaffa, by plaintiffs alleging to be subscribers of the defendants in connection with allegations that the defendants have unlawfully charged their subscribers for certain failed calls attempted by the subscribers, while abroad. If the lawsuit is certified as a class action, the total amount claimed from all three defendants is estimated by the plaintiffs to be approximately NIS 50 million, without specifying the amount attributed to the Company.

22. In July 2008, a purported class action lawsuit was filed against the Company in the District Court of Tel Aviv-Jaffa, by a plaintiff alleging to be a subscriber of the Company in connection with allegations that the Company misleads and overcharges certain subscribers, in relation to airtime packages. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 72 million.

Note 28 – Contingencies (cont'd)

A. Contingent liabilities (cont'd)

23. In July 2008, a purported class action lawsuit was filed against the Company in the District Court of Tel Aviv-Jaffa, by a plaintiff alleging to be a subscriber of the Company in connection with allegations that the Company misleads and unlawfully charges its subscribers for a certain automatic call completion service, even if not used. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 179 million.

24. The Company was served with a number of purported class actions by different plaintiffs and for different claims, that if certified as class actions the aggregate amount claimed is estimated by the plaintiffs to be NIS 57 million.

25. A dispute exists between the Company and the Ministry of Communications with respect to the payment of fees for its use of the GSM and UMTS frequencies. The amount in dispute as at December 31, 2008, is approximately NIS 71 million (including interest and CPI linkage differences). Until a final decision on this matter, the Company has deposited approximately half of the principal of this amount with the Ministry of Communications, but has not expensed the deposited sum in its financial statements. The Company has applied to the courts regarding this issue.

26. In April 2005, a lawsuit was filed against the Company in the District Court of Tel-Aviv–Jaffa by one of the Company's former dealers and importers for the amount of NIS 28 million (reduced for court fee purposes from approximately NIS 38 million), alleging that the Company breached an agreement between the parties.

27. The Company has undertaken to indemnify the Company's directors and officers, as well as certain other employees for certain events listed in the indemnifications letters given to them. The aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification letters is limited to the amounts the Company receives from the Company's insurance policy plus 30% of the Company's shareholders' equity as of December 31, 2001 or NIS 486 million, and to be adjusted by the Israeli CPI.

28. In January 2007 a lawsuit was filed against the Company in an arbitration proceeding for the amount of approximately NIS 35 million by a company that purchased cellular services from the Company in order to sell the services to its customers, alleging, among other things, that the Company has breached agreements between the parties and making claims concerning the Company's conduct. The Company rejects all claims made by the Plaintiff against the Company.

29. In December 2007, the Company was served with a petition filed with the Israeli High Court of Justice against the Israeli Minister of Communications and another cellular operator, seeking to retroactively apply the amendment to cellular operators' general license, effected September 2007, which prevents the Company from offering subscribers calling plans using airtime charging units other than the basic airtime charging unit, or alternatively, to retroactively cancel any charges which may be imposed on subscribers when transferring, before the lapse of a predetermined period, to calling plans based on the basic airtime charging unit. The Company and one other cellular operator were joined as formal respondents. The court has instructed only the Ministry of Communications to submit its response. In its response, the Ministry of Communications opposes the petition.

Note 28 – Contingencies (cont'd)

B. Effects of new legislation and standards

Changes to the Communications Regulations (Telecommunications and Broadcasting):

(a) Commencing January 1, 2009, the airtime charging unit, including for interconnect purposes, will decrease from 12-second units to intervals of 1-second units.

(b) Commencing December 31, 2008, the Company's general license obligates it to set a fixed tariff for non-business subscribers under obligation to purchase the Company's services for a predefined period, for the duration of that period, thus limiting the Company's ability to raise tariffs to such subscribers.

C. Liens and guarantees

As part of issuance of the Series A and B debentures (see Note 14), the Company committed not to create liens on its assets so long as the debentures have not been fully repaid, except for a fixed lien on assets for purposes of securing credit that will permit acquisition of those assets.
The Company has given bank guarantees as follows:

a. To the Government of Israel (to guarantee performance of the License) – U.S. $10 million.

b. To the Government of Israel (to guarantee performance of the License for Cellcom Fixed Line Communication L. P.) - NIS 10 million.

c. To suppliers and government institutions – NIS 13 million.

Note 29 - Related Parties

A. Balance sheet

	December 31	
	2007	2008
	NIS millions	NIS millions
Current assets	-	74
Current liabilities	-	8
Long-term liability – debentures	142	255

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms:

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Income:		
Revenues from services	16	14
Expenses:		
Cost of revenue	38	61
Other	4	15

In connection with the registration of the Company's shares on the NYSE on February 9, 2007, selling shareholders (DIC and Goldman Sachs International) reimbursed the Company for all expenses incurred in connection with the said registration.

On December 2007, the Company signed an agreement for the sale of an asset to Bayside Land Corporation Ltd., which is controlled by the controlling shareholder of the Company.

In the ordinary course of business, from time to time, the Company purchases, leases, sells and cooperates in the sale of goods and services or otherwise engages in transactions with entities that are members of the IDB group or other interested or related parties.

The Company has examined said transactions and believes them to be on commercial terms comparable to those that the Company could obtain from unaffiliated parties.

C. Key management personnel compensation (including directors)

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers (such as a car, medical insurance, etc.), and contributes to a post-employment defined contribution plan on their behalf.

The Company has undertaken to indemnify the Company’s directors (see note 28A.27).

Executive officers also participate in the Company’s share option program (see note 17 regarding share-based payments).

Note 29 - Related Parties (cont'd)

C. Key management personnel compensation (including directors) (cont'd)

Key management personnel compensation (including directors) comprised:

	Year ended December 31	
	2007	2008
	NIS millions	NIS millions
Short-term employee benefits	6	6
Share-based payments	11	10
	17	16

D. An agreement with DIC

In October 2006, the Company entered into an agreement with DIC pursuant to which DIC provides the Company with advisory services in the areas of management, finance, business and accountancy in consideration of NIS 2 million per year. This agreement is for a term of one year and is automatically renewed for one-year terms unless either party provides 60 days' prior notice to the contrary.

E. An agreements with Netvision 013 Barak

In July 2007, the Company entered into an agreement with Netvision 013 Barak ("Netvision") pursuant to which Netvision will provide the Company with interconnect and roaming services. In 2008, Netvision provided the Company interconnect and roaming services in the amount of NIS 29 million. The agreement is renewed every year.

Note 30 – Group entities

Significant subsidiaries

	Ownership interest	
	2007	2008
Cellcom Fixed Line Communication L.P	100	100
Cellcom Real Estate (2001) LTD.	100	100
Cellcom Holdings (2001) LTD	100	100
IRAY B.V	100	100

Note 31 - Explanation of Transition to IFRSs

As stated in note 2A, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The accounting policies in note 3 have been applied in preparing the annual consolidated financial statements for the year ended December 31, 2008, the comparative information for the year ended December 31, 2007 and the preparation of an opening IFRS balance sheet at January 1, 2007 (the Company's date of transition).

This note has been prepared according to IFRSs that are in effect or have been adopted in the annual financial statements for the year ending December 31, 2008.

An explanation of how the transition from previous Israeli GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

IFRS exemptions implemented

Provisions include asset retirement obligations. Upon the initial recognition of property, plant and equipment, the Company includes in the cost of the asset all the costs it will be required to incur in respect of a liability to dismantle and remove the asset and to restore the site on which it was located.

The Company recognized a liability to dismantle and remove the asset and to restore the site on which it was located in accordance with IAS 37 at the transition date. For the measurement of a fixed asset item, according to the exemption included in IFRS 1 paragraph 25E, the Company calculated the amount that would have been included in the cost of the asset on the date on which the liability was initially incurred by capitalizing the amount of the liability mentioned in the item above to the date on which the liability was initially incurred.

Note 31 - Explanation of Transition to IFRSs (cont'd)

Reconciliation of equity

		January 1, 2007					December 31, 2007		
			Effect of applying IFRS						
	Note	Israeli GAAP as reported prior to the adoption of new Israeli accounting standards in 2007	Effects reflected upon the adoption of new Israeli accounting standards in 2007	Israeli GAAP as reported after the adoption of new Israeli accounting standards in 2007	Other effect of applying IFRS	IFRS	Israeli GAAP	Effect of applying IFRS	IFRS
		NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current assets									
Cash and cash equivalents		56	-	56	-	56	911	-	911
Trade receivables		1,242	-	1,242	-	1,242	1,385	-	1,385
Other receivables, including derivatives	A, B	123	-	123	(50)	73	133	(37)	96
Inventory		131	-	131	-	131	245	-	245
Total current assets		**1,552**	**-**	**1,552**	**(50)**	**1,502**	**2,674**	**(37)**	**2,637**
Long-term receivables	C	526	-	526	21	547	545	30	575
Property, plant and equipment, net	C, D	2,390	165	2,555	(23)	2,532	2,368	(33)	2,335
Intangible assets, net	D	458	237	695	-	695	685	-	685
Total non-current assets		**3,374**	**402**	**3,776**	**(2)**	**3,774**	**3,598**	**(3)**	**3,595**
Total assets		**4,926**	**402**	**5,328**	**(52)**	**5,276**	**6,272**	**(40)**	**6,232**

Note 31 - Explanation of Transition to IFRSs (cont'd)

Reconciliation of equity (cont'd)

		January 1, 2007					December 31, 2007		
			Effect of applying IFRS						
	Note	Israeli GAAP as reported prior the adoption of new Israeli accounting standards in 2007	Effects reflected upon the adoption of new Israeli accounting standards in 2007	Israeli GAAP as reported after the adoption of new Israeli accounting standards in 2007	Other effect of applying IFRS	IFRS	Israeli GAAP	Effect of applying IFRS	IFRS
		NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Current liabilities									
Short-term credit		-	-	-	-	-	353	-	353
Trade payables and accrued expenses	F	819	-	819	(44)	775	1,007	(54)	953
Current tax liabilities	E	-	-	-	117	117	-	122	122
Provisions	F	-	-	-	81	81	-	91	91
Other current liabilities, including derivatives	E, F	496	-	496	(154)	342	543	(159)	384
Total current liabilities		**1,315**	**-**	**1,315**	**-**	**1,315**	**1,903**	**-**	**1,903**
Long-term loans from banks		1,208	-	1,208	-	1,208	343	-	343
Debentures		1,989	-	1,989	-	1,989	2,983	-	2,983
Provisions		-	-	-	12	12	-	14	14
Other long-term liabilities	D	2	12	14	(12)	2	17	(14)	3
Deferred taxes	A, B, D, G	105	105	210	(57)	153	196	(47)	149
Total non-current liabilities		**3,304**	**117**	**3,421**	**(57)**	**3,364**	**3,539**	**(47)**	**3,492**
Total liabilities		**4,619**	**117**	**4,736**	**(57)**	**4,679**	**5,442**	**(47)**	**5,395**
Shareholders equity									
Share capital		1	-	1	-	1	1	-	1
Capital reserves	H	(24)	-	(24)	-	(24)	(4)	(29)	(33)
Cash dividend declared subsequent to the balance sheet date	J	-	-	-	-	-	700	(700)	-
Retained earnings	A, C, D, H, J	330	285	615	5	620	133	736	869
Total shareholders' equity		**307**	**285**	**592**	**5**	**597**	**830**	**7**	**837**
Total liabilities and shareholders' equity		**4,926**	**402**	**5,328**	**(52)**	**5,276**	**6,272**	**(40)**	**6,232**

Note 31 - Explanation of Transition to IFRSs (cont'd)

Adjustment of the earnings

	Note	Year ended December 31, 2007		
		Israeli GAAP	Effect of applying IFRS	IFRS
		NIS millions		
Revenues		6,050	-	6,050
Cost of revenues	A	3,372	5	3,377
Gross profit		**2,678**	**(5)**	**2,673**
Selling and marketing expenses		685	-	685
General and administrative expenses	C	652	1	653
Other expenses (income), net	K	-	3	3
Operating income		**1,341**	**(9)**	**1,332**
Financing expenses		(287)	-	(287)
Financing income	A	131	9	140
Financing costs, net		**(156)**	**9**	**(147)**
Other expenses (income), net	K	3	(3)	-
Income before income tax		**1,182**	**3**	**1,185**
Income tax	A	309	1	310
Net income		**873**	**2**	**875**
Earnings per share				
Basic earnings per share (in NIS)		8.95	0.02	8.97
Diluted earnings per share (in NIS)		8.87	0.02	8.89

Note 31 - Explanation of Transition to IFRSs (cont'd)

A. In accordance with Israeli GAAP, no separation of embedded derivatives is required, as is required in accordance with IFRS. The effect of applying IFRS as at January 1, 2007, includes an increase in other receivables in the amount of NIS 10 million, an increase in deferred tax liabilities in the amount of NIS 3 million, and an increase in retained earnings in the amount of NIS 7 million (net of tax). The effect of applying IFRS as at December 31, 2007 includes an increase in other receivables in the amount of NIS 14 million, an increase in deferred tax liabilities in the amount of NIS 4 million and an increase in retained earnings in the amount of NIS 10 million (net of tax). In addition, the cost of revenues increased in the amount of NIS 5 million, for the year ended December 31, 2007. Financing income increased in the amount of NIS 9 million, for the year ended December 31, 2007. Tax expenses increased in the amount of NIS 1 million, for the year ended December 31, 2007.

B. In accordance with Israeli GAAP, deferred tax assets or liabilities were classified as current assets or current liabilities and non-current assets or non-current liabilities according to the classification of the assets or liabilities for which they were created. In accordance with IFRS, deferred tax assets are classified as non-current assets or non-current liabilities even if it is anticipated that they will be realized in the short term. Therefore, upon applying IFRS, short-term deferred tax assets as at January 1, 2007 and December 31, 2007 in the amount of NIS 60 million and NIS 51 million, respectively, were reclassified from the item of other receivables under current assets to the item of deferred tax liabilities under non-current liabilities.

C. In accordance with Israeli GAAP, lands leased from the Israel Lands Administration ("ILA") are classified as property, plant and equipment and are not depreciated. In accordance with IFRS, when these lands are not considered owned by the Company, the lease payments are classified as long-term receivables and are amortized over the lease period, including the optional extension period if on the date of signing the lease agreement it was reasonably certain that the option will be exercised. Accordingly, as at January 1, 2007 the Company recorded an increase in long-term receivables in the amount of NIS 21 million, a decrease in property, plant and equipment in the amount of NIS 23 million, and a decrease in retained earnings in the amount of NIS 2 million. As at December 31, 2007 the Company recorded an increase in long-term receivables in the amount of NIS 30 million, a decrease in property, plant and equipment in the amount of NIS 33 million, and a decrease in retained earnings in the amount of NIS 3 million. The amortization of lease payments was reflected in an increase in amortization expense in the amount of NIS 1 million for the year ended December 31, 2007.

D. Property, plant and equipment

1. In accordance with Israeli GAAP until December 31, 2006, the Company did not accrue for liabilities to dismantle and remove assets and to restore the site with respect to the cell sites, retail stores and general and administrative facilities. Starting January 1, 2007, the Company accrued for such liabilities, this resulted in the initial recognition of liabilities in respect of asset retirement obligations an increase in net book value of the fixed assets. As a result there was a decrease in retained earnings in the amount of approximately NIS 5 million, net of related taxes.
2. In accordance with Israeli GAAP until December 31, 2006, the Company depreciated property, plant and equipment based on the estimated useful life of the dominant asset within each group. Starting January 1, 2007, the Company retroactively separated individual components of property, plant and equipment with estimated useful lives that are different from the entire network, mainly transmission equipment such as fiber-optic cables and infrastructure. The depreciation expense is based on the estimated useful life of each component. The retroactive application of this change increased the Company’s retained earnings as of January 1, 2007, by approximately NIS 290 million.

Note 31 - Explanation of Transition to IFRSs (cont'd)

E. In accordance with Israeli GAAP, current taxation liabilities were classified as other current liabilities. In accordance with IFRS, current taxation liabilities are presented as a separate item in current liabilities. Therefore, upon applying IFRS, current taxation liabilities as at January 1, 2007 and December 31, 2007 in the amount of NIS 117 million and NIS 122 million, respectively, were reclassified from the item of other current liabilities under current liabilities to the item of current taxation liabilities under current liabilities.

F. In accordance with Israeli GAAP, current and non-current provisions were classified as trade payables and accrued expenses, other current liabilities, or other long-term liabilities, according to the origin of the provision. In accordance with IFRS, current provisions are presented as a separate item in current liabilities. Therefore, upon applying IFRS, as at January 1, 2007 and December 31, 2007: trade payables and accrued expenses decreased in the amount of NIS 44 million and NIS 54 million, respectively; other current liabilities including derivatives decreased in the amount of NIS 37 million and NIS 37 million, respectively; and current provisions increased in the amount of NIS 81 million and NIS 91 million, respectively. In addition, in accordance with IFRS, non-current provisions are presented as a separate item in non-current liabilities. Therefore, upon applying IFRS, as at January 1, 2007 and December 31, 2007, non-current provisions increased and other long-term liabilities decreased in the amount of NIS 12 million and NIS 14 million, respectively.

G. The deferred tax liability as presented hereunder has changed based on the aforementioned changes. The changes in the deferred taxes were calculated on the basis of tax rates that are expected to be in effect when the temporary differences reverse:

	Note	January 1 2007 NIS millions	December 31 2007 NIS millions
Property, plant and equipment, net	D	105	-
Other receivables	A	3	4
Deferred tax liabilities	B	(60)	(51)
		48	**(47)**

H. In accordance with Israeli GAAP, expenses recognized regarding share-based payment transactions were recorded against a capital reserve in the shareholders' equity. In accordance with IFRS, and on the basis of the accounting policy applied by the Company, the Company has reclassified this capital reserve to the retained earnings. Accordingly, the balance of the capital reserve decreased as of December 31, 2007 in the amount of NIS 29 million, and the retained earnings increased in the amount of NIS 29 million.

I. The effect of the aforementioned adjustments (net of tax) on the retained earnings:

	Note	January 1 2007 NIS millions	December 31 2007 NIS millions
Property, plant and equipment, net	D	285	-
Other receivables	A	7	10
Lands leased from the ILA	C	(2)	(3)
Classification of surplus resulting from share base payment	H	-	29
Dividend declared subsequent to balance sheet date	J	-	700
		290	**736**

Note 31 - Explanation of Transition to IFRSs (cont'd)

J. In accordance with Israeli GAAP, a dividend declared subsequent to the balance sheet date and before the approval date of the financial statements was appropriated within shareholders' equity as a separate item "Dividend declared subsequent to balance sheet date" against a decrease in retained earnings. In accordance with IFRS, such a dividend only requires disclosure and does not require any equity reclassification. Accordingly, as at December 31, 2007 the balance of retained earnings increased and the dividend declared subsequent to the balance sheet date that is presented in shareholders' equity decreased by the amount of NIS 700 million.

K. In accordance with Israeli GAAP, gains and losses from the sale of property, plant and equipment net and other income / expenses were not included in operating income. In accordance with IFRS, these items are included in operating income. The effect of applying IFRS for the year ended December 31, 2007, is reflected in a reclassification of these items to the operating income, in the amount of expenses of NIS 3 million.

L. Explanation of material adjustments to the cash flow statements:

1. Interest of NIS 23 million received from investments during the year ended December 31, 2007, is classified as investing cash flows under IFRSs, but was included in operating cash flows under Israeli GAAP.

2. Interest of NIS 177 million paid during the year ended December 31, 2007, is classified as financing cash flows under IFRSs, but was included in operating cash flows under Israeli GAAP.

3. Payments for fixed asset hedging contracts, in accordance with hedge accounting, in the amount of NIS 12 million, during the year ended December 31, 2007, are classified as investing cash flows under IFRSs, but were included in operating cash flows under Israeli GAAP.

4. Payments for inventory hedging contracts, in accordance with hedge accounting, in the amount of NIS 24 million, during the year ended December 31, 2007, are presented as a separate line in operating cash flows under IFRSs, but were presented as changes in operating assets and liabilities under Israeli GAAP.

5. Payments for derivative contracts, net, in the amount of NIS 16 million, during the year ended December 31, 2007, are presented as a separate line in operating cash flows, and NIS 10 million are presented as a separate line in financing cash flows under IFRSs, but were presented as changes in operating assets and liabilities under Israeli GAAP.

There are no other material differences between the cash flow statement presented under IFRSs and cash flow statement presented under Israeli GAAP.

CELLCOM ISRAEL, LTD.

2006 SHARE INCENTIVE PLAN

A. NAME AND PURPOSE

1. **Name:** This plan, as amended from time to time, shall be known as the "Cellcom Israel, Ltd. 2006 Share Incentive Plan".

2. **Purpose:** The purpose and intent of the Plan is to provide incentives to employees, directors, consultants and/or contractors of the Company and its Affiliates, by providing them with opportunities to purchase Shares, pursuant to a plan approved by the Board which is designed to enable the Company to issue options and restricted stock units, with respect to Israeli residents, pursuant to the provisions of either Section 102 or Section 3(9) of the Ordinance, as applicable, and the rules and regulations promulgated thereunder, as amended from time to time, or any other tax ruling provided by the tax authorities to the Company, as well as with respect to non-Israeli residents pursuant to the applicable law in their respective country of residence.

B. DEFINITIONS

"**Adoption Date**" means the Date of Grant, or any other date of commencement of vesting of an Award for the purposes of this Plan, that is determined by the Committee for a given grant of an Award

"**Affiliate**" means any company (i) that is a Controlling Shareholder (as such term is defined in Section 102 of the Ordinance) of the Company, or (ii) of which the Company is a Controlling Shareholder, or (iii) which has a Controlling Shareholder that is also a Controlling Shareholder of the Company.

"**Awards**" means Options and/or RSUs.

"**Beneficial Grantee**" means the Grantee in respect of whom, an Award held in Trust by the Trustee was granted.

"**Board**" means Board of Directors of the Company.

"**Cessation of Employment**" means the cessation of employment of a Grantee (who was an employee of the Company on the Date of Grant of any Awards to him or her), with the Company, for any reason.

"**Committee**" means the Board or a committee appointed by the Board for such purpose, if appointed.

"**Companies Law**" means the Companies Law 1999.

"Company" means Cellcom Israel, Ltd., a company organized under the laws of the State of Israel, or any Affiliate thereof, unless the context otherwise requires.

"**Controlling Shareholders**" means controlling shareholders of the Company, as such term is defined in the Ordinance.

"**Corporate Transaction"** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any event, as a result of which, Discount Investment Corporation Ltd. ("DIC") ceases to control (as such term is defined in the Israeli Securities Law, 1968) the Company;

(ii) a sale or other disposition of all or substantially all, as determined by the Board in its discretion, of the consolidated assets of the Company and its subsidiaries;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the Ordinary Shares of the Company outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

Whether a transaction is a "Corporate Transaction" as defined above, shall be finally and conclusively determined by the Committee in its absolute discretion.

"**Date of Grant**" means the effective date of the grant of an Award, as detailed in Section 5.1(b) hereinafter.

"**Date of Cessation**" means (i) the date on which the employee-employer relationship between the Grantee and the Company ceases to exist, or (ii) if the Grantee is a contractor or consultant - the date on which the consulting or contractor agreement between the Grantee and the Company expires, or the date on which either of the parties to such agreement sends the other notice of its intention to terminate said agreement, or (iii) if the Grantee is a director - the date on which the Grantee ceases to serve as a director of the Company.

"**Disability**" means the inability to engage in any substantial gainful occupation for which the Grantee is suited by education, training or experience, by reason of any medically determinable physical or mental impairment that is expected to result in such person's death or to continue for a period of six (6) consecutive months or more.

"**Exercise Date**" means the actual date of exercise of Options.

"Exercise Price" means the purchase price per Exercised Share, subject to each Option, or the nominal value per Exercised Share to be paid upon the vesting of an RSU, if applicable.

"**Exercised Shares**" means Shares received upon exercise of Options (or Rights, if applicable) and/or vesting of RSUs.

"**Grantee**" means the person to whom Awards shall be granted under this Plan.

"**IPO**" means an initial public offering of Shares.

"**Notice of Exercise**" means a written notice of exercise of an Option, delivered by a Grantee to the Company.

"**Notice of Grant**" means a written notice of the grant of an Award.

"**102 Awards**" means grants of Awards to Israeli employees, directors and office holders of the Company, other than to a Controlling Shareholder, pursuant to the provisions of Section 102 of the Ordinance, the 102 Rules, and any other regulations, rulings, procedures or clarifications promulgated thereunder. Such grants of Awards may be pursuant to (i) a Taxation Route and/or (ii) Section 102(c) of the Ordinance ("**102(c) Awards**").

"**102 Rules**" means the Income Tax Rules (Tax Relief in Issuance of Shares to Employees), 2003.

"**Options**" means options to purchase Shares.

"**Ordinance**" means the Israeli Income Tax Ordinance [New Version], 1961.

"**Plan**" means this "Cellcom Israel, Ltd. 2006 Share Incentive Plan", as amended from time to time.

"**Representative**" means any third party designated by the Company for the purpose of the exercise of the Options, as provided in Section 9.2 hereinafter.

"**Rights**" means rights issued in respect of Exercised Shares, including bonus shares but excluding cash dividends.

"**RSUs**" means Restricted Stock Units, as described in Section 13 below.

"**Shares**" means ordinary shares, nominal value of NIS 0.01 each of the Company (subject to an expected split of the Company's shares).

"**Taxation Route**" means the capital gains route under Section 102(b)(2) of the Ordinance.

"**3(9) Awards**" means grants of Awards to Israeli consultants, contractors or Controlling Shareholders of the Company pursuant to the provisions of Section 3(9) of the Ordinance and the rules and regulations promulgated thereunder, or any other section of the Ordinance that will be relevant for such issuance in the future.

"**Trust**" means the holding of each Award and Exercised Shares by the Trustee in Trust for the benefit of the Beneficial Grantee.

"**Trustee**" means a trustee designated by the Committee in accordance with the provisions of Section 3.4 hereof and, with respect to 102 Awards, approved by the Israeli Tax Authority.

"**Trust Expiration Date**" means 1.1.2015, or any other date determined by the Board.

"**Trust Period**" means the period of time required under a Taxation Route for Awards and/or Exercised Shares to be held in Trust in order for the Beneficial Grantee to enjoy the tax benefits afforded under such Taxation Route, as will be applicable for such Taxation Route from time to time.

"**Vesting Period**" of an Award means, for the purpose of the Plan and its related instruments, the period between the Adoption Date and the date on which (i) an Option becomes exercisable into a Share; or (ii) an RSU is automatically vested into a Share, as applicable.

C. GENERAL TERMS AND CONDITIONS OF THE PLAN

3. **Administration:**

3.1 The Plan will be administered by the Board or, subject to applicable law, including but not limited to the instructions of the Companies Law, by a Committee, which will consist of such number of directors of the Company as may be fixed, from time to time, by the Board. If a Committee is not appointed, the term Committee, whenever used herein, shall mean the Board. The Board shall appoint the members of the Committee, may from time to time remove members from, or add members to, the Committee and shall fill vacancies in the Committee however caused.

3.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places, as it shall determine. Actions taken by a majority of the members of the Committee, at a meeting at which a majority of its members is present, or acts reduced to, or approved in, writing by all members of the Committee, shall be the valid acts of the Committee. The Committee may appoint a secretary, who shall keep records of its meetings and shall make such rules and regulations for the conduct of its business, as it shall deem advisable.

3.3 Subject to the general terms and conditions of this Plan and applicable law, the Committee shall have the full authority in its discretion, from time to time and at any time to determine (i) the Grantees under the Plan, (ii) the number of Shares subject to each Award, (iii) the time or times at which the same shall be granted, (iv) the schedule and conditions, including performance conditions, if applicable, on which such Awards may be exercised and/or on which such Shares shall be paid for and/or on which such RSUs may vest, and/or (v) rules and provisions, as may be necessary or appropriate to permit eligible Grantees who are not Israeli residents to participate in the Plan and/or to receive preferential tax treatment in their

country of residence, with respect to the Awards granted hereunder, and/or (vi) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan.

3.4 Furthermore, subject to the general terms and conditions of the Plan, the Ordinance, and any other applicable laws and regulations, the Committee shall have the full authority in its discretion, from time to time and at any time, to determine:

(a) With respect to grants of 102 Awards pursuant to the Taxation Route the identity of the trustee who shall be granted such 102 Awards in accordance with the provisions of this Plan and the Taxation Route; and

(b) With respect to the grant of 3(9) Awards - whether or not 3(9) Awards shall be granted to a trustee in accordance with the terms and conditions of this Plan, and the identity of the trustee who shall be granted such 3(9) Awards in accordance with the provisions of this Plan.

3.5 Notwithstanding the aforesaid, the Committee may, from time to time and at any time, grant 102(c) Awards.

3.6 The Committee may, from time to time, adopt such rules and regulations for carrying out the Plan, as it may deem necessary. No member of the Board or of the Committee shall be liable for any act or determination made in good faith with respect to the Plan or any Award granted thereunder.

3.7 The interpretation and construction by the Committee of any provision of the Plan or of any Award thereunder shall be final and conclusive and binding on all parties who have an interest in the Plan or any Award or Share issuance thereunder, unless otherwise determined by the Board.

4. Eligible Grantees:

4.1 The Committee, at its discretion, may grant Awards to any employee, director, consultant and/or contractor of the Company. Anything in this Plan to the contrary notwithstanding, all grants of Awards shall be authorized and implemented only in accordance with the provisions of applicable law.

4.2 The grant of an Award to a Grantee hereunder, shall neither entitle such Grantee to participate, nor disqualify him from participating, in any other grant of Awards pursuant to this Plan or any other incentive plan of the Company.

5. Grant of Awards, Issuance of Shares, Dividends and Shareholder Rights:

5.1 Grant of Awards and Issuance of Shares.

(a) Subject to the provisions of the Ordinance and applicable law (it being understood that, unless otherwise determined by the Committee, the following shall not apply to Awards granted to non Israeli Grantees),

(i) All grants of Awards to Israeli employees, directors and office holders of the Company, other than to Controlling Shareholders, shall be as 102 Awards and shall be subject either to the Taxation Route or to Section 102(c) of the Ordinance; and

(ii) All grants of Awards to Israeli consultants, contractors or Controlling Shareholders of the Company shall be as 3(9) Awards.

(b) Subject to Sections 7.1 and 7.2 hereof, the Date of Grant shall be the date the Committee resolves to grant such Award, unless specified otherwise by the Committee in its determination relating to the grant of such Award. The Committee shall promptly give the Grantee a Notice of Grant.

(c) Trust. In the event Awards are deposited with a Trustee, the Trustee shall hold each such Award and Exercised Shares in Trust for the benefit of the Beneficial Grantee; *provided, however,* that unless the Committee determines otherwise, in its sole and absolute discretion, the Trustee shall not hold any Awards in Trust following the Trust Expiration Date, all Awards held in Trust on such date shall be transferred automatically to the Grantee, and all implications, including tax implications, resulting from such transfer of Awards shall be borne solely by the Grantee.

In accordance with Section 102, the tax benefits afforded to 102 Awards and any Exercised Shares, in accordance with the Taxation Route, shall be contingent upon the Trustee holding such 102 Awards for the applicable Trust Period.

With respect to 102 Awards granted to the Trustee, the following shall apply:

(i) A Grantee granted 102 Awards shall not be entitled to sell the Exercised Shares or to transfer such Exercised Shares (or such 102 Awards) from the Trust prior to the lapse of the Trust Period; and

(ii) Any and all Rights shall be issued to the Trustee and held thereby until the lapse of the Trust Period, and such Rights shall be subject to the Taxation Route.

Notwithstanding the aforesaid, Exercised Shares or Rights may be sold or transferred, and the Trustee may release such Exercised Shares (or 102 Awards) or Rights from Trust, prior to the lapse of the Trust Period, provided however, that tax is paid or withheld in accordance with Section 102 of the Ordinance and/or the 102 Rules, and/or any

other provision of the Ordinance and any regulation, ruling, procedure and clarification promulgated thereunder, that will be relevant from time to time.

All certificates representing Exercised Shares issued to the Trustee under the Plan shall be deposited with the Trustee, and shall be held by the Trustee until such time that such Shares are released from the Trust as herein provided.

Alternatively, in the event the Company's Shares are listed on any stock exchange or admitted to trading on an electronic securities trading system, whether in Israel or outside of Israel, the Company shall register the Exercised Shares issued to the Trustee pursuant to the Plan, in the name of the Trustee, in accordance with any applicable laws, rules and regulations, until such time that such Shares are released from the Trust as herein provided.

(d) Subject to the terms hereof, at any time after the Awards are vested, with respect to any 102 Awards or Exercised Shares held by the Trustee the following shall apply:

(i) Upon the written request of any Beneficial Grantee, the Trustee shall release from the Trust, within a reasonable period of time, the Awards granted, and/or the Exercised Shares issued, on behalf of such Beneficial Grantee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Grantee, provided, however, that the Trustee shall not so release any such Awards and/or Exercised Shares to such Beneficial Grantee unless the latter, prior to, or concurrently with, such release, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes, if any, required to be paid upon such release have, in fact, been paid.

(ii) Alternatively, subject to the terms hereof, with respect to any Exercised Shares held by the Trustee, provided the Exercised Shares are listed on a stock exchange or admitted to trading on an electronic securities trading system (such as the Nasdaq), upon the written instructions of the Beneficial Grantee to sell any Exercised Shares, the Company and/or the Trustee shall use their reasonable efforts to effect such sale within a reasonable period of time, and shall transfer such Exercised Shares to the purchaser thereof concurrently with the receipt of, or after having made suitable arrangements to secure, the payment of the proceeds of the purchase price in such transaction. The Company and/or the Trustee, as applicable, shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate tax authorities and shall pay the balance thereof directly to the Beneficial Grantee, reporting to such Beneficial Grantee and to the Company the amount so withheld and paid to said tax authorities. In case an appropriate tax exemption or partial tax exemption certificate was provided to the Company and/or Trustee, an adequate time prior to the date in which the proceeds are to be paid, the Company and/or Trustee shall not withhold or partially withhold the taxes required, in accordance with the tax exemption certificate, as the case may be).

5.2 Guarantee. In the event a 102(c) Award is granted to a Grantee who is an employee at the time of such grant, upon the Grantee's Cessation of Employment, such Grantee shall provide the Company, to its full satisfaction, with a guarantee or collateral securing the future payment of all taxes required to be paid upon the sale of the Exercised Shares received upon exercise of such 102(c) Award or its vesting (if an RSU), all in accordance with the provisions of Section 102 of the Ordinance, the 102 Rules and the regulation or orders promulgated thereunder.

5.3 Dividend. All Exercised Shares shall entitle the Grantee thereof to receive dividends with respect thereto. For so long as Exercised Shares deposited with the Trustee on behalf of a Beneficial Grantee are held in the Trust, the cash dividends paid or distributed with respect thereto shall be distributed directly to such Beneficial Grantee, subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102 of the Ordinance, the 102 Rules and the regulations or orders promulgated thereunder.

5.4 Voting Rights; Shareholder Rights. The holder of an Award shall have no shareholder rights with respect to the Shares subject to such Award until such person shall have exercised the Award, or the Award has vested (if an RSU), as the case may be, has paid the Exercise Price, if applicable, and has become the record holder of the applicable Exercised Shares.

As long as the Exercised Shares are held by the Trustee, the voting rights at the Company's general meeting attached to such Exercised Shares will remain with the Trustee. The Trustee shall not be obligated to exercise such voting rights at general meetings, nor to notify the Grantee of any Exercised Shares held in the Trust, of any meeting of the Company's shareholders. However, the Trustee may, at his sole discretion, empower the respective Beneficial Grantee, to vote in name and in place of the Trustee according to such Beneficial Grantee's instructions, if provided.

6. **Reserved Shares:** The total number of Shares that may be subject to Awards granted under this Plan shall not exceed 2,500,000 in the aggregate, subject to adjustments as provided in Section 11 hereof. All Shares under the Plan, in respect of which the right of a Grantee to purchase the same shall, for any reason, terminate, expire or otherwise cease to exist, shall again be available for grant through Awards under the Plan, and under any other plans or sub-plans, as the Committee may determine at its own discretion, from time to time, provided, however, that until termination of the Plan the Company shall at all times reserve sufficient number of unissued Shares to meet the requirements of the Plan.

Without derogating from the foregoing, the Committee shall have full authority in its discretion to determine that the Company may issue, for the purposes of this Plan and/or any other plans, previously issued Shares that are held by the Company, from time to time, as Dormant Shares (as such term is defined in the Companies Law).

7. **Required Approvals; Notice of Grant; Vesting and Re-pricing:**

7.1 The implementation of the Plan and the grant of any Award under the Plan shall be subject to the Company's procurement of all approvals and permits required by applicable law or regulatory authorities having jurisdiction over the Plan, the Awards granted under it, and the Exercised Shares issued pursuant to it.

The Company shall obtain the approval of the Company's shareholders for the adoption of this Plan or for any amendment or sub-plan adopted in the future to this Plan, if shareholders' approval is necessary to comply with the Company's bylaws, any applicable law, rule or regulation, including without limitation the US securities laws, or the securities laws of other jurisdictions applicable to Awards granted to Grantees under this Plan, or if shareholders' approval is required by any authority or by any governmental agencies or national securities exchanges, including without limitation the US Securities and Exchange Commission.

7.2 The Notice of Grant shall state, *inter alia*, the number of Shares subject to each Award, the vesting schedule, the dates when the Awards may be exercised or shall automatically vest into Exercised Shares (for RSUs), as applicable, their Exercise Price, if applicable, whether the Awards granted to Israeli Grantees are 102 Awards (and in particular whether the 102 Awards are granted under the Taxation Route, or as 102(c) Awards) or 3(9) Awards, and such other terms and conditions as the Committee at its discretion may prescribe, provided that they are consistent with this Plan. Each Notice of Grant evidencing a 102 Award shall, in addition, be subject to the provisions of the Ordinance applicable to such awards.

Furthermore, each Grantee of a 102 Award under the Taxation Route shall be required to execute a declaration stating that he or she is familiar with the provisions of Section 102 of the Ordinance and the Taxation Route, and to undertake not to sell or transfer the Awards and/or the Exercised Shares prior to the lapse of the applicable Trust Period, unless he or she pays all taxes that may arise in connection with such sale and/or transfer.

7.3 Term of Awards; Vesting. Without derogating from the rights and powers of the Committee under Section 7.2 hereof and subject to Section 10 hereinafter, unless otherwise specified by the Committee, the Awards shall be for a term of six (6) years, and, unless determined otherwise by the Committee, the Vesting Period pursuant to which such Awards shall vest, shall be such that 25% of the Awards granted to a Grantee in a specific grant shall vest on each of the first, second, third and fourth anniversaries of the Adoption Date; *provided, however, that no Award granted under this Plan shall vest prior to the consummation of an IPO*.

Unless determined otherwise by the Committee, any period in which the Grantee shall not be employed by the Company, or in which the Grantee shall have taken an unpaid leave of absence, or in which the Grantee shall cease to serve as a director, consultant or contractor of the Company, shall not be included in the Vesting Period.

7.4 Acceleration of Vesting. Anything herein to the contrary in this Plan notwithstanding, the Committee shall have full authority, whether before of after the grant of an Award, to determine any provisions regarding the acceleration of the Vesting Period of any Award, or the cancellation of all or any portion of any outstanding restrictions with respect to any Award upon certain events or occurrences, on such terms and conditions as the Committee shall deem appropriate.

7.5 Repricing. Subject to applicable law, the Committee shall have full authority to, at any time and from time to time, (i) grant in its discretion to the holder of an outstanding Award, in exchange for the surrender and cancellation of such Award, a new Award having an Exercise Price lower than provided in the Award so surrendered and canceled and containing such other terms and conditions as the Committee may prescribe in accordance with the provisions of the Plan, or (ii) effectuate a decrease in the Exercise Price (see Section 8 below) of outstanding Awards.

8. **Exercise Price:** The Exercise Price shall be determined by the Committee in its sole and absolute discretion, subject to applicable law and to guidelines adopted by the Board from time to time.

9. **Exercise of Options:**

9.1 Options shall be exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the Plan.

9.2 The exercise of an Option shall be made by a written Notice of Exercise delivered by the Grantee to the Company at its principal executive office, and/or to a Representative and, with respect to Options held in the Trust, to the Trustee, in such form and method as may be determined by the Company and when applicable, by the Trustee in accordance with the requirements of Section 102 of the Ordinance, specifying the number of Shares to be purchased and accompanied by the payment of the Exercise Price, at the Company's or the Representative's principal office, and containing such other terms and conditions as the Committee shall prescribe from time to time.

9.3 Notwithstanding the provisions of Section 9.2 above, and unless otherwise provided by the Board, all Options shall be exercised using the following method (the "**Net Exercise**"):

(a) The Company shall issue to the Grantee (or to the Trustee, as applicable) a number of Shares having an aggregate Market Value (as defined below) equal to the Benefit Amount (as defined below) (the "**Net Exercise Shares**");

For the purposes of this Section:

(i) The "**Benefit Amount**" shall mean the difference between:

(A) (i) the Market Value times (ii) the number of Shares subject to the Options for which a Notice of Exercise has been delivered to the Company; and

(B) (i) the Exercise Price times (ii) the number of Shares subject to the Options for which a Notice of Exercise has been delivered to the Company.

(ii) "**Market Value**" shall mean the closing price for a Share on the last trading day prior to the date of exercise, as reported or quoted on the Nasdaq or on any other stock market on which Shares are traded, as shall be determined by the Committee.

(b) The Grantee shall not be required to pay to the Company any sum with respect to the exercise of such Options, other than a sum equal to [the aggregate nominal value of the Net Exercise Shares (which shall be paid in a manner provided in Section 9.5 below) (the "**Nominal Value Sum**"). However, the Company shall have the full authority in its discretion to determine at any time that the Nominal Value Sum shall not be paid and that the Company shall capitalize applicable profits or take any other action to ensure that it meets any requirement of applicable law regarding issuance of Shares for consideration that is lower than the nominal value of such Shares;

(c) No fractional Shares will be issued to the Grantee and the number of Shares granted to the Grantee under the Plan shall be rounded off (upward or downward) to the nearest whole number.

9.4 Anything herein to the contrary notwithstanding, but without derogating from the provisions of Section 10 hereof, unless otherwise determined by the Committee, if any Option has not been exercised and the Shares subject thereto not paid for within six (6) years after the Date of Grant (or any shorter period set forth in the Notice of Grant), such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall *ipso facto* expire, and, in the event that in connection therewith any Options are still held in the Trust as aforesaid, the Trust with respect thereto shall *ipso facto* expire, and the Shares subject to such Options shall again be available for grant through Awards under the Plan (provided its term is extended, if needed), any other plans or sub-plans, as provided for in Section 6 herein, or any other incentive arrangement of the Company.

9.5 Each payment for Exercised Shares shall be in respect of a whole number of Shares, and shall be effected in cash or by a bank's check payable to the order of the Company, or such other method of payment acceptable to the Company.

10. **Termination of Employment:**

10.1 Employees. In the event of a Cessation of Employment of a Grantee who was an employee at the Date of Grant, all Awards theretofore granted to such Grantee when such Grantee was an employee of the Company, unless determined otherwise by the Committee, shall terminate as follows:

(a) All such Awards that are not vested on the Date of Cessation shall terminate immediately.

(b) If the Grantee's cessation of employment is by reason of such Grantee's death or Disability, any Options previously granted to the Grantee (to the extent vested on the Date of Cessation) shall be exercisable by the Grantee (if applicable) or the Grantee's guardian, legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution, at any time until the lapse of twelve (12) months from the Date of Cessation (but in no event after the expiration date of such Options), and shall thereafter terminate.

(c) If the Grantee's Cessation of Employment is due to any reason other than those stated in Sections 11.1(b), 11.1(d) or 11.1(e) herein, any Options previously granted to the Grantee (to the extent vested on the Date of Cessation) shall be exercisable at any time until the lapse of **three (3) months** from the Date of Cessation (but in no event after the expiration date of such Options), and shall thereafter terminate;

(d) Notwithstanding the aforesaid, if the Grantee's Cessation of Employment is due to (i) breach of the Grantee's duty of loyalty towards the Company, or (ii) breach of the Grantee's duty of care towards the Company, or (iii) the commission of any flagrant criminal offense by the Grantee, or (iv) the commission of any act of fraud, embezzlement or dishonesty towards the Company by the Grantee, or (v) any unauthorized use or disclosure by the Grantee of confidential information or trade secrets of the Company, or any substantial breach of the Grantee's employment agreement with the Company, or (vi) any other intentional misconduct by the Grantee (by act or omission) adversely affecting the business or affairs of the Company in a material manner, or (vii) any act or omission by the Grantee which would allow for the termination of the Grantee's employment without severance pay, according to the Severance Pay Law, 1963, any and all Options previously granted to the Grantee whether vested or not shall *ipso facto* expire immediately and be of no legal effect.

(e) If a Grantee retires, he may, subject to the approval of the Committee, continue to enjoy such rights, if any, under the Plan and on such terms and conditions, with such limitations and subject to such requirements as the Committee in its discretion may determine.

(f) Whether the Cessation of Employment of a particular Grantee is by reason of "**Disability**" for the purposes of paragraph 10.1(b) hereof or by virtue of "retirement" for purposes of paragraph 10.1(e) hereof, or is a termination of employment other than by reason of such Disability or retirement, or is for reasons as set forth in paragraph 10.1(d) hereof, shall be finally and conclusively determined by the Committee in its absolute discretion.

(g) Notwithstanding the aforesaid, under no circumstances shall any Option be exercisable after the specified expiration of the term of such Option.

10.2 Directors, Consultants and Contractors. In the event that a Grantee, who is a director, consultant or contractor of the Company, ceases, for any reason, to serve as such, the provisions of Sections 10.1(a), 10.1(b), 10.1(c), 10.1(d), 10.1(f) and 10.1(g) above shall apply, *mutatis mutandis*.

10.3 Notwithstanding the foregoing provisions of this Section 10, the Committee shall have the discretion, exercisable either at the time an Option is granted or thereafter, to:

(a) Extend the period of time for which the Option is to remain exercisable following the Date of Cessation to such greater period of time, as the Committee shall deem appropriate, but in no event beyond the specified expiration of the term of the Option; or

(b) Permit the Option to be exercised, during the applicable exercise period following the Date of Cessation, not only with respect to the number of Shares for which such Option is exercisable on the Date of Cessation but also with respect to one or more additional installments in which the Grantee would have vested under the Option had the Grantee continued in the employ or service of the Company.

10.4 Notwithstanding the foregoing provisions of this Section 10, and for the avoidance of doubt, unless the Board determines otherwise, the transfer of a Grantee from the employ or service of the Company to the employ or service of an Affiliate, or from the employ or service of an Affiliate to the employ or service of the Company or another Affiliate, shall not be deemed a Cessation of Employment or termination of service for purposes hereof.

11. **Adjustments, Liquidation and Corporate Transaction:**

11.1 Bonus Shares.

(a) If the Company distributes bonus shares to all of its shareholders, including all holders of Shares, whose date of distribution is earlier than the Exercise Date or vesting date (for RSUs), as applicable, Shares in the number and kind that the Award holder would have been entitled to as bonus shares had he/she exercised the Options or had his/her RSUs vested, as the case may be, before the record date determining the right to receive bonus shares, will be added to the Exercised Shares to which the holder of the Awards is entitled upon exercising the Options or vesting of the RSUs, as applicable.

(b) The Exercise Price of each Award will not change as a result of the addition of such bonus shares, while other terms referring to the Exercised Shares will also apply to the bonus shares added to the Exercised Shares, *mutatis mutandis*.

(c) If the Company distributes bonus shares, as described in Section (a) above, for which the record date for distribution and/or the date of distribution fall during the period in which Exercised Shares are registered in the name of the Trustee for the Beneficial Grantee, the Company will transfer to the Trustee an amount of bonus shares according to the number of Exercised Shares registered in its name at the time of distribution, and the Trustee will hold them in Trust for the Beneficial Grantees. In the event Exercised Shares have been transferred from the Trustee to a Beneficial Grantee and/or sold by the Company or the Trustee at the Beneficial Grantee's request between the record date for distribution and the date of distribution, the Company will transfer bonus shares in respect of these Shares directly to such Beneficial Grantee. Each such Grantee will be entitled to Shares in the same number and class to which he would have been entitled, had the Shares been held by him prior to the record date for the right to receive the bonus shares.

11.2 Cash Dividends. If the Company distributes cash dividends with respect to all Company's Shares issued to its shareholders, and the record date for determining the right to receive such dividends (the "**Determining Date**") is earlier than the Exercise Date of the Options granted hereunder, then the Exercise Price for each Share subject to an Option not exercised prior to the Determining Date, shall be reduced by an amount equal to the gross amount of the dividend per Share distributed, calculated in the same currency as the Exercise Price according to the representative rate of exchange as of the Determining Date, if applicable. Notwithstanding the aforesaid, in the event the Company's Shares are listed on any stock exchange or admitted to trading on an electronic securities trading system, the aforesaid reduction of the Exercise Price for each Share subject to an Option not exercised shall correspond to the reduction in the price of a Company Share as a result of such distribution as recorded by such stock exchange or electronic securities trading system. Unless determined otherwise by the Board, the Exercise Price shall not be reduced to less than the nominal value of a Share.

11.3 Adjustments. Unless determined otherwise by the Committee, subject to any required action by the shareholders of the Company and/or any other required action under any applicable law, the number of Shares subject to each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per share of Shares subject to each such outstanding Award, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a share split, reverse share split, combination or reclassification of the Shares or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

Except as expressly provided in this Section 12, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no

adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Award.

Except as expressly provided in this Section 11, the grant of Awards under the Plan shall in no way affect the right of the Company to distribute bonus shares, to offer rights to purchase its securities, or to distribute cash dividends.

11.4 Liquidation. Unless otherwise provided by the Board, in the event of the proposed dissolution or liquidation of the Company, all outstanding Awards will terminate immediately prior to the consummation of such proposed action. In such case, the Committee may declare that any Award shall terminate as of a date fixed by the Committee and give each Grantee the right to exercise his/her Award or to allow his/her Awards to vest (for RSUs), including any Award that would not otherwise be vested (in respect of RSUs) and/or exercisable (in respect of Options).

11.5 Corporate Transaction.

(a) In the event of a Corporate Transaction, the Vesting Period of the Awards shall be automatically and immediately accelerated so that all Awards whether vested or not shall become vested and, in respect of Options, exercisable, as of ten (10) days prior to the effective date of such Corporate Transaction and until the effective date of such Corporate Transaction. The Company will provide each Grantee with a ten (10) day advanced notice prior to the effective date of a Corporate Transaction and in case no such advance notice is possible and/or the exercise of Awards is restricted under applicable law or regulations during the ten (10) days prior to the effective date of a Corporate Transaction, the Grantee will be entitled to exercise his or her Awards after the effective date of said Corporate Transaction, allowing a ten (10) day period to do so from the later of (i) receipt of such notice, or (ii) removal of all restrictions under applicable law or regulations on the exercise of the Awards, after which any unexercised Awards shall terminate.

(b) Immediately prior the consummation of the Corporate Transaction, all outstanding Awards which are not exercised until the effective date of the Corporate Transaction, shall terminate and cease to be outstanding.

11.6 Sale. Subject to any provision in the Articles of Association of the Company and to the Committee's sole and absolute discretion, in the event of sale or other disposition of all or substantially all of the outstanding share capital of the Company, each Grantee shall be obligated to participate in such sale and sell his or her Exercised Shares, provided, however, that each such Exercised Share shall be sold at a price equal to that of any other Share sold under the sale, subject to the absolute discretion of the Board.

With respect to Exercised Shares held in Trust the following procedure will be applied: the Trustee will transfer the Exercised Shares held in Trust and sign any document in order to effectuate the transfer of such Shares, including share transfer deeds, provided, however, that the Trustee receives a notice from the Board, specifying that: (i) all or

substantially all of the issued outstanding share capital of the Company is to be sold, and therefore the Trustee is obligated to transfer the Exercised Shares held in Trust under the provisions of this Section 11.5; and (ii) the Company is obligated to withhold at source all taxes required to be paid upon release of the Exercised Shares from the Trust and to provide the Trustee with evidence, satisfactory to the Trustee, that such taxes indeed have been paid; and (iii) the Company is obligated to transfer the consideration for the Exercised Shares directly to the Grantees.

11.7 The grant of Awards under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

12. **Limitations on Transfer:**

12.1 Unless determined otherwise by the Committee, no Award shall be assignable or transferable by the Grantee to whom granted otherwise than by will or the laws of descent and distribution, and an Award may be exercised, where applicable, during the lifetime of the Grantee only by such Grantee or by such Grantee's guardian or legal representative. Any assignment or transfer other than as aforesaid, shall be null and void. The terms of such Award shall be binding upon the beneficiaries, executors, administrators, heirs and successors of such Grantee. In addition, as long as Awards and/or Exercised Shares are held by the Trustee on behalf of the Grantee, all rights of the Grantee over the Exercised Shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or pursuant to the laws of descent and distribution.

12.2 Underwriter's Lock-up. The Grantee's rights to sell Exercised Shares may be subject to certain limitations (including a lock-up period), as will be requested by the Company or its underwriters, from time to time, or upon a specific occurrence, and the Grantee unconditionally agrees and accepts any such limitations.

12.3 Restrictions on Shares. The Committee may impose such restrictions on any Exercised Shares, as it may deem advisable, including, but not limited to, restrictions related to applicable U.S. federal securities laws, the requirements of any national securities exchange or system upon which Shares are then listed or traded, or any U.S. blue sky or state securities laws.

13. **Restricted Stock Units**

13.1 Subject to the sole and absolute discretion and determination of the Committee, the Committee may decide to grant under this Plan, in addition to, or instead of, any grant of Options, Restricted Stock Unit(s) ("**RSU(s)**"). RSUs are Options, bearing an Exercise Price of no more than the underlying Share's nominal value. In addition, notwithstanding anything to the contrary in Section 9.2 above, upon the lapse of the Vesting Period of an RSU, such RSU shall automatically vest into an Exercised Share of the Company and, unless otherwise determined by

the Board, the Grantee shall pay to the Company its nominal value as a precondition to any issuance of such Exercised Share. However, the Company shall have the full authority in its discretion to determine at any time that the nominal value shall not be paid and that the Company shall capitalize applicable profits or take any other action to ensure that it meets any requirement of applicable law regarding issuance of shares for consideration that is lower than the nominal value of such Shares.

13.2 All other terms and conditions of this Plan applicable to Options, shall apply to RSUs *mutatis mutandis*.

14. **Term and Amendment of the Plan:**

14.1 The Plan shall terminate, and no additional Awards may be granted pursuant to it, upon the earliest of (i) the expiration of ten (10) years from the date the Plan was adopted by the Board, or (ii) the termination of all outstanding Awards in connection with a Corporate Transaction. All Awards outstanding at the time of a clause (i) termination event shall continue to have full force and effect in accordance with the provisions of the Plan and the documents evidencing such Awards.

14.2 Subject to applicable laws and regulations, the Board in its discretion may, at any time and from time to time, amend, alter, extend or terminate the Plan, as it deems advisable. However, no amendment or modification shall adversely affect any rights and obligations with respect to Options at the time outstanding under the Plan, unless the applicable Grantee consents to such amendment or modification. In the event the Committee wishes to grant Awards to non-Israeli Grantees, the Committee may adopt, as part of this Plan and based on it, sub-plans, in order to comply with all relevant and applicable laws and regulations of the country of residence of such Grantees.

15. **Withholding and Tax Consequences:** The Company's obligation to deliver Exercised Shares upon the exercise or vesting of any Awards granted under the Plan shall be subject to the satisfaction of all applicable income tax and other compulsory payments withholding requirements. All tax consequences and obligations regarding any other compulsory payments arising from the grant, exercise, or vesting of any Award, from the payment for, or the subsequent disposition of, Exercised Shares subject thereto or from any other event or act (of the Company, of the Trustee or of the Grantee) hereunder, shall be borne solely by the Grantee, and the Grantee shall indemnify the Company and/or the Trustee, as applicable, and hold them harmless against and from any and all liability for any such tax or other compulsory payment, or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax or other compulsory payment from any payment made to the Grantee.

The Company and/or the Trustee, when applicable, shall not be required to release any Share certificate to a Grantee until all required payments have been fully made.

16. **Miscellaneous:**

16.1 Continuance of Employment. Neither the Plan nor the grant of an Award thereunder shall impose any obligation on the Company to continue the employment or service of any Grantee. Nothing in the Plan or in any Award granted thereunder shall confer upon any Grantee any right to continue in the employment or service of the Company for any period of specific duration, or interfere with or otherwise restrict in any way the right of the Company to terminate such employment or service at any time, for any reason, with or without cause.

16.2 Notwithstanding anything to the contrary in this Plan, it is hereby clarified, that any income attributed (or deemed to be attributed) to the Grantee as a result of this Plan, the grant or exercise of Awards thereunder, or the sale of Exercised Shares, shall not be taken into account for the purpose of calculating the Grantee's eligibility for any rights deriving from the employee-employer or service provider-client relationship between the Grantee and the Company.

16.3 Governing Law. The Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Israel, excluding the choice of law rules thereof**.**

16.4 Application of Funds. Any proceeds received by the Company from the sale of Exercised Shares pursuant to the Awards granted under the Plan shall be used for general corporate purposes of the Company.

16.5 Multiple Agreements. The terms of each Award may differ from other Awards granted under the Plan at the same time, or at any other time. The Committee may also grant more than one Award to a given Grantee during the term of the Plan, either in addition to, or in substitution for, one or more Awards previously granted to that Grantee. The grant of multiple Awards may be evidenced by a single Notice of Grant or multiple Notices of Grant, as determined by the Committee.

16.6 Non-Exclusivity of the Plan. The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of awards otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

16.7 The provisions of this Plan shall not be construed as deviating from any applicable laws, rules and regulations.

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TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

[State Emblem]

State of Israel
Ministry of Communications

General License to Cellcom Israel Ltd. for the Provision of mobile radio telephone services by the cellular method (cellular)

Combined Version, as at November 5, 2008

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General License for

Cellcom Israel Ltd.

Award of license

By the authority vested in me under the Telecommunications Law, 5742 – 1982 (hereinafter – the Law), the Wireless Telegraph Ordinance [New Version], 5732 – 1972 (hereinafter – the Ordinance), and my other powers pursuant to any law, I, the Minister of Communications, hereby grant a license to Cellcom Israel Ltd. (hereinafter – the Licensee) to establish, maintain and operate a mobile radio telephone system by the cellular method, and to provide thereby mobile radio telephone services to the Israeli public, as set forth in this License.

This License is granted for the period set forth in the license and is subject to its conditions as follows:

CHAPTER A: GENERAL

PART A: DEFINITIONS AND INTERPRETATION:

1. Definitions

1.1 In this License, the words and expressions below will have the meaning listed next to them, unless another meaning is evident from the written language or its context.

" Type Approval"	-	Approval given by the Minister pursuant to the Law and the Ordinance to a cellular end-equipment model.
"Means of Control"	-	In a corporation – any one of the following: (1) the right to vote at a general meeting of a company or in an entity corresponding thereto in another corporation; (2) the right to appoint a director or CEO; (3) the right to participate in the profits of the corporation; (4) the right to a share in the balance of the assets of the corporation after payment of its debts on liquidation.
"Telecommunications"	-	Broadcast, transfer or reception of marks, signals, written material, visual forms, sound or information, via wire, wireless, optical system or other electromagnetic systems;
"Franchisee" [A16]	-	As defined in Section 6(12)(1) of the Law;
"Interested Party"	-	Anyone holding, directly or indirectly, 5% of a certain type of the Means of Control;
"Licensee"	-	Anyone to whom the Minster granted, pursuant to the Law, a general or special license; [A16]
"General Licensee" [A16]	-	Anyone who has received a general license for implementing the Telecommunications operations and providing Telecommunications services;
"Broadcasting Licensee" [A16]	-	As defined in the Law;
"Accessibility Fees"	-	Payment for the use of another Telecommunications system, including for connection, transmission and collection;
"Technical Requirements and Service Quality"	-	Standards of availability and service quality, standards for Telecommunications facilities and instructions for installation, operation and maintenance, all according to the engineering plan as the Director will order from time to time relating to the services of the Licensee
"Contract" [A43]	-	Contract between the Licensee and a Subscriber, for the provision of all or any of the services of the Licensee;
the "Proposal"	-	The Licensee's Proposal in the Tender;
the "Bezeq Corp."	-	Bezeq Israel Telecommunication Corp. Ltd.;
the "Law"	-	The Communications Law (Telecommunications and Broadcasts), 5742 – 1982; [A16]

[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A43] Amendment No. 43 [Inception: This amendment shall come into force not later than March 15, 2007]

"Holding" A16	-	For the purpose of Means of Control – directly or indirectly, whether alone or in concert with others, including through another, including a trustee or agent, or through a right granted under an agreement, including an option for a Holding that does not derive from convertible securities, or in any other way;
"Transfer" A16	-	For the purpose of the Means of Control, whether directly or indirectly, whether for consideration or without consideration, whether in perpetuity or for a period, all at once or in parts;
"In Concert With Others" A16	-	Permanent collaboration and, with regard to an individual, permanent collaborators will be deemed – the individual, his Relative, and a corporation that one of them controls and, with regard to a corporation – the corporation, anyone controlling it and anyone who is controlled by one of them;
"Security Forces"	-	The Israel Defence Forces, the Israel Police, the General Security Service and the Mossad Institute for Intelligence and Special Operations;
"Index"	-	The Consumer Price Index published by the Central Bureau of Statistics from time to time, or any other index that may replace it;
"Cellular Radio Center"	-	A wireless facility functioning on the operating frequencies and used for creating a radio connection between cellular end-equipment units in the possession of the subscribers in its coverage area and the cellular switchboard;
"Interface"	-	The physical meeting between various functional Telecommunications units, including by optical or wireless means;A16
"Telecommunications Facility"	-	A facility or device intended mainly for telecommunication purposes, including end-equipment;A16
"Tender No. 1/01" A16	-	A tender published by the Ministry on 4 Nissan 5761 (March 28, 2001), including the clarifications given by the Ministry in the course of the Tender, as a result of which this License was amended;
the "Tender"	-	Tender No. 10/93 published by the Ministry on November 11, 1993, including clarifications given by the Ministry in the course of the Tender, as a result of which this License is granted;
the "Director"	-	The Director General of the Ministry of Communications or anyone authorized by him for the purposes of this License, in whole or in part;
"Subscriber" A43	-	Anyone who enters into an agreement with the Licensee for the purpose of receiving cellular services as an end user;
"Dormant subscriber"T48)		A subscriber in respect of which all of the conditions set out below are fulfilled: (a) He did not receive or use cellular services

T48) Amendment No. 48 (Inception: This amendment will come into force on October 2, 2008).

during a minimum of one year, starting from January 1, 2008;

(b) He does not pay the Licensee any fixed payment;

(c) He is not bound with the Licensee by any plan that includes a commitment period.

"Business subscriber"[T47)] - A subscriber who is any of the following:

(a) A corporation, as defined in the Interpretation Law, 5741-1981;

(b) Government offices and auxiliary government bodies;

(c) A licensed dealer excluding an exempt dealer;

(d) An entity established by or pursuant to a law.

"International Telecommunications System" - A system of Telecommunications facilities, connected or designated for connection to the Public Telecommunications Network through an International NEP, which is used or designated for use in the transfer of Telecommunications messages between an international switch situated in Israel and a Telecommunications Facility located abroad, including a satellite ground station and other Telecommunications facilities (hereinafter – the **System Components**) and including transmission facilities among the System Components; [A16]

[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16

[T47)] Amendment No. 47.

[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16

"Mobile Radio Telephone System" (Cellular System)	-	A system of wireless facilities built by the cellular method and other installations, through which mobile radio telephone services are provided to the public, including a cellular coordinator, cellular radio centers and wireless or cable transmission arteries between cellular radio centers, a cellular radio center and a cellular coordinator, between Cellular coordinators, or between a cellular switchboard and a Public Telecommunications Network.
"NDO (National Domestic Operator)" [A16]	-	A General Licensee for the provision of landline domestic Telecommunications services
"Cellular Operator"	-	A General Licensee for the provision of mobile radio telephone services [A16]
"Another Cellular Operator"	-	A Cellular Operator that is not the Licensee.
"Switchboard"	-	A Telecommunications Facility in which are situated and operated switching and transmission means, enabling contact between various end-equipment units that are connected or linked thereto, and the transfer of Telecommunications messages between them, including control and monitoring facilities and other facilities that enable the provision of various services to Subscribers of the Licensee or to subscribers of another Licensee;
the "Ministry"	-	The Ministry of Communications
"Transit Switch" [A16]	-	A Telecommunications Facility in which are situated and operated the means of switching, routing and transmission enabling contact between various switchboards that are connected or linked thereto and the transfer of Telecommunications messages between them, including control and monitoring facilities;
"Officer" [A16]	-	Anyone acting as a director, CEO, chief business officer, deputy CEO, someone who fills such a position in a company even if the title is different, as well as any other manager who is directly subordinate to the CEO of the company;
"Appendices" [A16]	-	The first addendum and the Appendices set forth in the second addendum to the License [A16]
"NEP (Network End-Point)"	-	An Interface to which is connected on one side a Public Telecommunications Network and on the other side, end-user equipment, a private network, a mobile telephone network or other public network, as applicable;
"International NEP"	-	A connections device to which are linked a Public Telecommunications Network on one side and an International Telecommunications System on the other;
"Telecommunications operation"	-	The operation, installation, construction or maintenance of a Telecommunications Facility, all for the purpose of Telecommunications;
the "Ordinance"	-	The Wireless Telegraph Ordinance [New Version]. 5732 – 1972;
"End-User Equipment"	-	Telecommunications equipment, which is connected or is designated for connection to a public Telecommunications network through an NEP or through a private network, including a telephone, modem, facsimile or private switchboard;

[A16] Amendment No. 16

[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
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"Cellular End-User Equipment"	-	Portable or movable Telecommunications equipment, connected or designated for connection to a Cellular System by means of a cellular radio center.
"Interconnection" [A16]	-	Connection between a Public Telecommunications Network of one Licensee to a Public Telecommunications Network of another Licensee, physically or logically, that facilitates the transfer of Telecommunications messages between Subscribers of the Licensees or the provision of services by one Licensee to the subscribers of the other Licensee;
"Relative"	-	Spouse, parent, son, daughter, brother, sister or their spouses;
the "License"	-	This License, with all its Appendices and any other document or condition stipulated in the License that will constitute an integral part of the License or its conditions;
the "Network" [A16]	-	The Cellular System of the Licensee;
the "Minister"	-	The Minister of Communications, including anyone to whom he has delegated his authority with regard to this License, in whole or in part;
"Public Telecommunications Network"	-	A system of Telecommunications facilities, used or designated for the provision of Telecommunications services to the general public throughout Israel or at least in the area of service, including Coordinators or Transit Switches, transmission equipment and an access Network, including a Cellular System and an international Telecommunications system, except for a private network, End-Equipment and Cellular End-Equipment;
"Public Telecommunications Landline Network"	-	A domestic Public Telecommunications Network, except for a Cellular System and an international Telecommunications network;
"Access Network" [A16]	-	Components of a Public Telecommunications Network, which are used for connection between Coordinators and an NEP by means of a landline infrastructure, wireless infrastructure or a combination of the two;
"Bezeq Network"	-	The Public Telecommunications Network used by Bezeq for provision of its services under the general license granted to it and the other Telecommunications services provided under the Law, whether by Bezeq or by any other person;
"Use" [A16]	-	Access to a Telecommunications Facility of the Licensee, including to the public Telecommunications network or its Access Network, in whole or in part, and the possibility of using them for the purpose of conducting Telecommunications operations and providing Telecommunications services by means thereof, including the installation of a Telecommunications Facility of another Licensee in a Telecommunications Facility or courtyards of the Licensee
"Telecommunications Service"	-	The performance of Telecommunications operations for others;
"Basic Telephone Service"	-	Two-way switched or routed transfer, including via modem, of speech or of speech-like Telecommunications messages, for example, facsimile signals;
"Telephony Service" [A16]	-	Basic telephone service and services related to this service;

[A16] Amendment No. 16
[A16] Amendment No. 16

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[A16] Amendment No. 16
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[A16] Amendment No. 16

"International Telephone Service (ITMS)"	-	A telephone service by means of the international system of a Licensee for the provision of international services;
"Roaming Service" [A16]	-	A cellular service provided abroad and in the areas of civilian control of the Palestinian Council via the Cellular System of a foreign Cellular operator (hereinafter – Foreign Operator), whereby the Subscriber pays the Licensee for the service; and, similarly, a cellular service provided in Israel via the Cellular System of the Licensee, whereby the Licensee provides service to a Foreign Operator for the subscribers of that operator; in this regard, **the "Palestinian Council**" – as defined in the Law for Implementation of the Interim Agreement Regarding the West Bank and Gaza Strip (Jurisdictional Powers and Other Provisions) (Legislative Amendments), 5756 – 1998 [sic];
"Related Service"	-	A service set forth in the first addendum to the License, provided on the basis of the Basic Telephone Service and which, by its nature, can only be provided by the supplier of the basic service;
"Value Added Service" [A16]	-	A service provided on the basis of the Basic Telephone Service, which, by its nature, can be provided by another, including another Licensee that is not the supplier of the basic service; with regard to the services of the Licensee, a service as stated, which is set forth in the first addendum to the License;
"infrastructure Service"	-	An Interconnection, or possibility of Use given to another Licensee, to a Franchisee or to a broadcast Licensee;[A16]
"Domestic Telecommunications Landline Service" [A16]	-	Infrastructure, transmissions, communication of data and landline telephony;
"Licensee Services"	-	Cellular services, Telecommunications Services and other services which the Licensee is entitled to provide pursuant to this License, to its Subscribers, to other Licensees, to broadcast licensees, to Franchisees and to the Security Forces;[A16]
"Cellular Services"	-	Telecommunications services provided by means of the Cellular System;
"Control"	-	The ability to direct a corporation's activity, directly or indirectly, including ability deriving from the articles of incorporation, by virtue of an agreement, either written or oral, by virtue of a Holding in the Means of Control in another corporation - or from any other source, except for ability deriving solely from fulfilling the position of director or other position in the corporation;
"the Minister"	-	The Minister of Communications, including anyone to whom he has delegated his authority with regard to this License, in whole or in part;
"Engineering Plan"	-	An engineering plan submitted by the Licensee in the Tender, including any change introduced therein with the approval of the Director and attached to the license as Appendix B;
"Numbering Plan" [A16]	-	As defined in Section 5A(B) of the Law;

[A16] Amendment No. 16
[A16] Amendment No. 16

[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16

1.2 Other words and expressions in the License, insofar as they are not defined in Clause 1.1, will have the meaning they have in the Law, in the Ordinance, in the regulations enacted thereunder, in the Interpretation Law, 5741 – 1981, or as set forth in the relevant places in the License, unless another meaning is implied by the written language or its context.

2. Clause headings

The headings of the clauses in this License are provided solely for the convenience of the reader, and should not be used for interpretation or explanation of the content of any of the conditions of the License.

3. Blue pencil principle

A cancellation or determination regarding the non-validity of a condition of this License or part of a condition will apply only with regard to that condition or part, as applicable, and will not serve, per se, to derogate from the binding validity of the License or any other condition therein.

PART B – LEGAL PROVISIONS AND ADMINISTRATIVE PROVISIONS

4. Upholding laws and provisions

4.1 In everything pertaining to the setup, existence, operation, and maintenance of the Cellular System and the provision of Cellular Services thereby, the Licensee will act in accordance with the provisions of any law and, without derogating from the aforesaid generality, will ensure compliance with the following:

(1) the provisions of the Telecommunication Law and the regulations promulgated thereunder;

(2) the provisions of the Wireless Telegraph Ordinance and the regulations promulgated thereunder;

(3) administrative provisions;

(4) international Telecommunications and radio treaties to which Israel is a party;

(5) any other law or treaty that will apply to Telecommunications and radio, even if they go into effect after the License is granted.

4.2 The Licensee will act pursuant to laws and provisions as stated in Clause 4.1 as these will be in force from time to time during the license period, including the remedies for the breach thereof, and they will be deemed an integral part of the License conditions.

5. Permit obligation pursuant to any other law

5.1 The granting of this License will not exempt the Licensee from the obligation to obtain, with regard to execution of the License, any license, permit, approval, or consent pursuant to any other law.

6. Contradiction in the License provisions

In the event of an apparent contradiction in the License provisions, the Minister will determine the interpretation of the provisions or how to settle the contradiction between them and after the Licensee has been given a fair opportunity to voice its claims [A2].

[A2] Amendment No. 2

CHAPTER B: THE LICENSE – SCOPE, VALIDITY AND CANCELLATION

PART A – SCOPE AND PERIOD OF THE LICENSE

7. Scope of the License

7.1 Pursuant to this License and subject to all the provisions and conditions hereof, the Licensee is entitled to set up, implement, maintain and operate a Cellular System and, through it, to provide cellular Services to the Israeli public; without derogating from the aforementioned generality, the Licensee is entitled to do the following:

(1) to set up, implement, maintain and operate cellular radio centers and to connect them to cellular switchboards, and to connect between cellular switchboards, by means of cable and wireless transmission channels;
(2) To connect the cellular System to the Public Telecommunications Network of Bezeq;
(3) To connect the cellular System to the international Telecommunications system;
(4) To connect its cellular System to another cellular System;
(5) To contract with Subscribers for the purpose of providing cellular Services;
(6) To provide Subscribers with cellular End-User Equipment;
(7) To connect Subscribers to the cellular System and provide cellular Services and other services pursuant to this License;
(8) To provide Subscribers with the following services:
  (A) Basic mobile wireless telephone service;
  (B) Related services as set forth in the first addendum;
  (C) Roaming service; [A16]
  (D) Any other cellular service permitted pursuant to this License.[A16]

7.2 The Licensee will not be entitled to provide any cellular service or other Telecommunications Service that is not explicitly permitted within the context of this License.

8. Absence of exclusivity[A16]

8.1 The Licensee will not have any exclusivity in the provision of its services.

8.2 The Minister is entitled, at any time, to grant a license to additional operators for the provision of cellular Services..

8.3 Should the Minister publish a tender for the provision of cellular services, the Licensee will be entitled to submit its bid in the tender, however, the Minister will be entitled to determine as part of the conditions of such a tender that if the Licensee wins the tender, the receipt of a license will be contingent on the fact that the Licensee transfer its cellular System to another as instructed by the Minister and under conditions determined thereby, and it will cease to provide cellular Services by means thereof.

[A16] Amendment No. 16
[A16] Amendment No. 16
[A16] Amendment No. 16

9. The License period

9.1 This License is valid for a period of 10 years, commencing on the date of the granting of the License (hereinafter – the License Period).

9.2 The License Period may be extended by additional six years in accordance with that stated in Clause 10 (hereinafter – the Additional Period).

9.3 This License may be renewed for one or more Additional Periods of six years, in accordance with that stated in Clause 11.

9.4 During the License Period and the Additional Period or on renewal of the License, the License will be subject to the authority of the Minister pursuant to Clauses 13 to 15 with regard to change, restriction, suspension or cancellation of the License.

9.5[A15] Notwithstanding the aforesaid [A16], in the context of expansion of the License, as a result of the Licensee winning Tender No. 1/01, this License will be valid for a period of twenty (20) years, commencing on 19 Shevat 5762 (February 1, 2002).

10. Extension of the License Period

10.1 The Minister is entitled, at the request of the Licensee, to extend the License Period for additional six years, if, after he has examined the following:

(A) The Licensee has complied with the provisions of the Law, the Ordinance, the regulations thereunder and the provisions of the License;
(B) The Licensee has continually acted to improve the scope, availability and quality of the cellular Services and to update the technology of the cellular System and its activities did not include an act or omission that would impair or restrict competition in the cellular sector;
(C) The Licensee is capable of continuing to provide cellular Services at a high level and that it is able to make the investments required for the technological updating of the cellular System and for improving the scope, availability and quality of the cellular Services.

10.2 The Licensee must submit its request for an extension of the License Period during the forty-five days prior to the period of eighteen months preceding the end of the License Period.

10.3 The Licensee must attach the following to its request:
(A) A report summarizing the annual statements that the Licensee has submitted pursuant to this License between the date of commencement of the License and the date of submission of its request;
(B) Comparison of the data in the report for each year with the data for the preceding year and explanations of unusual changes in the data;
(C) Review of the means, actions and investments taken or made by the Licensee to improve the quality, scope and availability of the Cellular Services and to develop and update the Cellular System technology.

10.4 The summary report pursuant to Clause 10.3 must contain up-to-date and precise details and be prepared in the form of an affidavit.

[A15] Amendment No. 15
[A16] Amendment No. 16

10.5 For the purpose of examining the Licensee's request to extend the License Period, the Minister is entitled to require the Licensee to furnish, during the period and in the manner that he will determine, any information or document and, without derogating from the generality of that stated, the Minister is entitled -

(A) To require the Licensee to attach any document to the summary report for the purpose of verifying the details therein, to complete the report or to furnish any additional detail that is not included therein;

(B) To summon the Licensee to appear before him to respond to questions or to present documents that are in its possession or under its control, relating to the data in the report;

(C) To require the Licensee to submit to him an Engineering Plan outlining its plans for the technological update of the Cellular System during the Additional Period;

10.6 The Licensee must fulfil every requirement or summons as stated in Clause 10.5; if the Licensee is required to appear before the Minister, the chairman of the board of directors of the company holding the License or the CEO of the company or anyone authorized to do so in writing, will appear;

10.7 If the Licensee fails at least twice to respond to the request or summons as stated in Clause 10.5, the Minister is entitled to reject its request to extend the validity of the License.

10.8 The Minister will inform the Licensee of his decision regarding the request for extending the validity of the License no later than a year before the end of the License Period.

10.9 The Additional Period will be subject to the terms of this License, including any change therein.

10.10 The provisions of Clause 100 regarding confidentiality will apply, *mutatis mutandis*, to data furnished by the Licensee to the Minister or anyone acting on his behalf, pursuant to the provisions of Clause 10.

11. Renewal of the License

11.1 At the end of the License Period or the Additional Period, the Minister is entitled, at the request of the Licensee, to renew the License for one or more Additional Periods of six years, as will be determined.

11.2 The Licensee will submit its request for the renewal of the License during the forty-five days prior to the eighteen months preceding of the end of the License Period or the Additional Period.

11.3 The Minister will inform the Licensee in writing, within 30 days of the date of receiving its request for renewal of the License, whether he intends to take the measures and institute the proceedings required to renew the License, or a tender will be conducted for the services under this License.

12. Termination of the License Period

12.1 If the License Period pursuant to Clause 9.5[A16] or the Additional Period pursuant to Clause 10.1 or the License Period after its renewal pursuant to Clause 11.1 ends and the License is not extended or not renewed, the Minister is entitled to instruct the Licensee to continue to operate the Cellular System for a period to be determined (hereinafter - the Period for Terminating the Service) until a license is duly granted to another for the provision of services pursuant to this License (hereinafter – Alternate Licensee), and the procedures for transferring the system thereunder are completed, or until a license is duly granted to another for alternate services. In any case, the Period for Terminating the Service will not exceed two years from the date on which the License expires.

12.2 During the Period for Terminating the Service and no later than ten months from the date on which a license is granted to an Alternate Licensee, the Licensee and the Alternate Licensee will negotiate for the purpose of purchasing the Cellular system at its economic value and assigning the rights and obligations of Subscribers to the Alternate Licensee; if said Licensees do not reach an agreement within said ten months, the price will be determined by an arbitrator, whose decision will be final, to be appointed by the Chairman of the Institute of Certified Public Accountants.

[A2] Amendment No. 16

PART B – CHANGE IN CONDITIONS AND CANCELLATION OF THE LICENSE

13. Change in the License conditions

13.1 The Minister is entitled to change, add to or subtract from the License conditions if he is convinced that one of the following exists:

(A) A change has occurred in the extent of the License applicant's suitability to perform the actions and services that are the subject of the License;
(B) Subject to that stated in Clause 8, a change is required in the License to ensure competition in the telecommunications area;
(C) A change is required in the License to ensure the level of services provided thereunder;
(D) Changes that have occurred in telecommunications technology require a change in the license;

13.2 The Minister is entitled to change, increase or reduce the rates for services, if he is convinced that a change has occurred in one or more of the components of the costs, which represent a basis for calculating the rates.

13.3 The Minister will act pursuant to his authority as stated in Clauses 13.1 and 13.2 after the Licensee has been given a reasonable opportunity to voice its claims.

14. Cancellation of the License

14.1 The Minister is entitled to cancel the License before the end of its period, if one or more of the causes set forth in Section 6 to the Law exist, or in one of the following cases:

(A) The Licensee did not disclose to the tenders committee information that must be disclosed or it furnished inaccurate information;
(B)[A2] If the Licensee refuses to furnish the Minister or anyone acting on his behalf with information in its possession that must be disclosed and which it was obligated to disclose by virtue of the provisions of this license or pursuant to law, or the Licensee furnished the Minister or someone acting on his behalf with false information;
(C) The Licensee did not comply with the provision of the Law, the Ordinance or the regulations thereunder;
(D) The Licensee committed a material breach of the License conditions and, without derogating from the generality of that stated, including the following:
  (1) The Licensee is demanding for its services payments that are higher than the maximum rates prescribed in this License or pursuant thereto, or pursuant to any law;
  (2) The Licensee is not complying with the coverage or quality requirements prescribed in this license;
  (3) The Licensee did not comply with the provisions of this license with regard to the operation of digital technology in the cellular System;
(E) The Licensee did not commence provision of the services pursuant to that set forth in the License or unlawfully discontinued, restricted or delayed one of the services;

[A2] Amendment No. 2

(F) One or more of the qualities that rendered the Licensee suitable to participate in the tender for cellular services, or to be a Licensee, has ceased to exist, including:

(1) The Licensee has ceased to be a company registered in Israel;

(2) Residents and citizens of Israel no longer hold, directly or indirectly, at least 20% of all of the Means of Control in the Franchisee; in this clause – "Citizen of Israel" – as defined in the Citizenship Law, 5712 – 1952; "Resident" – as defined in the Population Registry Law, 5735 – 1965;

(3) A majority of the directors in the Licensee company are not citizens and residents of Israel;

(4) The manager or a director of the Licensee company was convicted of an infamous crime and continues to serve in his position;

(5) The joint equity, including surpluses, of all of the shareholders in the Licensee company, together with the equity of the Licensee, has declined to under US $200 million; in this matter, a shareholder holding less than 10% of the right to the company's earnings will not be taken into account.

(6) Before 5 years have elapsed from the date of granting the License, the share of the cellular operator has fallen to less than 25% of the voting rights in the general meeting or of the right to appoint a director or CEO in the Licensee company;

(7) Subject to that stated in paragraph (8), the Licensee, or an officer in the Licensee company or anyone who holds more than 5% of the Means of Control in the Licensee company, holds, directly or indirectly, more than one per cent (5%) of the Means of Control in Bezeq[A2], Another cellular Operator, or one of them acts as an Officer in a competing corporation.

(8) If one of the following occurs in an Interested Party in the Licensee company, which is a mutual fund, insurance company, investment company or pension fund;

- it holds, directly or indirectly, more than 5% of any Means of Control in a competing corporation, without receiving a permit therefor from the Minister;

- it holds, directly or indirectly, more than 5% of any Means of Control in a competing company pursuant to a permit from the Minister and, additionally, it is a controlling shareholder and exercises actual Control in a competing corporation or it has a representative or appointee on its behalf among the Officers in the competing corporation, unless it is required to do so under law;

- it holds, directly or indirectly, more than 10% of any Means of Control in a competing corporation, even though it has received permission to hold up to 10% of said Means of Control;

(G) Void [A2]

(H) If an act or omission in the Licensee's operations impaired or restricted competition in the cellular sector;

[A16] Amendment No. 16
[A2] Amendment No. 2

(I) A receiver or temporary liquidator was appointed to the Licensee company and an order was given for its liquidation or it decided on voluntary liquidation;
(J) Void [A2)]
(K) The Licensee requested cancellation of the License;

14.1.1[A2] For the purposes of sub-clause 14.1(E [A2]), the restriction of service for technological reasons, effected after the Director was provided with prior written notification of the reasons and approved by the Director, will not be considered deemed an improper unlawful cessation, restriction or delay of service.

14.2 If the Minister is convinced that, in the circumstances, the cause of invalidity does not necessitate cancellation of the License, the Minister will grant the Licensee a fair opportunity to rectify the act or omission constituting a cause for cancellation.

14.3 The Minister will notify the Licensee in advance of his intention to cancel the license, will state in the notice the cause in question, and will allow the Licensee to voice its claims relating to the cause for cancellation, either in writing or orally, according to the circumstances, within the period set forth in the notice.

14.4 The Minister is entitled to summon the Licensee to appear before him and may demand that it respond to questions, present documents or furnish him with whatever information and documents are required for the purposes of clarifying the cause for cancellation.

14.5 If the Licensee is required or summoned as stated, it must respond to the requirement or summons on the date set forth therein.

14.6 If the Licensee fails to respond, at least twice, to the Minister's demand or summons within the period stipulated by the Minister in his demand or summons, the Minister is entitled to cancel the License in a notice that will be sent to the Licensee (hereinafter - Cancellation Notice).

14.7 In the Cancellation Notice, the Minister will determine the date on which the cancellation of the License will take effect and he is entitled to instruct the Licensee to continue the provision of services pursuant to this License until a license is granted to another or until the appointment of a trustee or until a receiver is duly appointed for the purpose of managing and operating the cellular System – as applicable.

14.8 The Licensee will continue to provide services until the end of the period stipulated by the Minister in his notice and will comply with the provisions of this License and any instruction given by the Minister in this matter.

15. <u>Other remedies</u>

In addition to his authority to cancel the License as stated in Clause 14, the Minister is entitled, if the causes outlined in Clause 14.1 occur, to restrict or suspend the License or to change its conditions or to foreclose on the guarantee given by the Licensee to secure fulfilment of the conditions of the License, in whole or in part; the procedures set forth for cancellation of the License will

apply, *mutatis mutandis*, to the restriction or suspension of the License or forfeiture of the guarantee.

[A2] Amendment No. 2
[A2] Amendment No. 2
[A2] Section 3 in the original version of Amendment No. 2 contained a typographical error, in which 14.1(D) was written instead of 14.1(E).

CHAPTER C: OWNERSHIP, ASSETS AND MEANS OF CONTROL

PART A – RESTRICTIONS ON TRANSFER OF THE LICENSE AND ITS ASSETS

16. Prohibition on transfer of the license

The license, in whole or in part, may not be transferred, encumbered or attached without the prior consent of the Minister.

17. Ownership of the Cellular System

17.1 The Licensee will be the owner of the Cellular System.

17.2 Notwithstanding that stated in Clause 17.1, the Director is entitled to permit the Licensee to utilize the cable or wireless transmission arteries of another for the purpose of connecting cellular radio centers, connecting a cellular radio center to a Cellular Coordinator of the Licensee or of another Licensee, connecting Cellular Coordinators of the Licensee, connecting a Cellular Coordinator of the licensee to a Cellular Coordinator of Another Cellular Operator [A16], or connecting a Cellular Coordinator to a Public Telecommunications Network or to an International Telecommunications Network.

18. Restrictions on transfer of the License assets

18.1 The Licensee may not sell, lease or pledge any of the assets used in performance of the License (hereinafter – the License Assets) with the Minister's prior consent and in accordance with the conditions determined by him.

18.2 Without derogating from the generality of that stated in Clauses 16 and 18.1, the Minister will give his consent for the granting of rights in the License Assets to a third party, if he is convinced to his satisfaction that the Licensee has promised that, in any event, the exercise of the rights by a third party will not cause any impairment in the provision of the services pursuant to this License, as long as the Licensee is obligated to provide these services pursuant to the provisions of this License.

18.3 [A2] Notwithstanding that stated in Clause 18.1, the Licensee is entitled to encumber one of the License Assets in favour of a bank duly operating in Israel, for the purpose of receiving bank credit, provided that it has furnished notice of the encumbrance that it intends to create, whereby the encumbrance agreement includes a clause ensuring that that, in any event, the exercise of the rights by the banking corporation will not cause any impairment in the provision of the services pursuant to this license. For the purposes of this clause – "Banking Corporation" is as defined in the Banking Law (Licensing), 5741 – 1981, except for a "Foreign Corporation," as defined in the same law.

18.4 [A2] The provisions of Clause 18.1 will not apply to the sale of equipment items during an upgrade, including the sale of equipment, as stated, on a "trade-in" basis.

[A16] Amendment No. 16
[A2] Amendment No. 2
[A2] Amendment No. 2

19. Engagement with another

19.1 If the Licensee wishes to provide one of the services pursuant to this license, in whole or in part, through another on its behalf, it must apply to the Director for his approval therefor; the Licensee must attach the Contract[A43)] to its application. The provisions of this clause will not apply for the purposes of the engagement between the Licensee and a marketer of Cellular End-Equipment or anyone acting on behalf of the Licensee for the purpose of marketing its services. [A2]

19.2 The Director is entitled to approve or reject the application, or to condition his approval on terms that must be fulfilled, including amendment of the agreement; the Director will consider, *inter alia*, to what extent the terms of the engagement with the other guarantee compliance with the conditions of this License and the obligations of the Licensee hereunder. The Director will not approve an engagement with another that contradicts the obligations of the Licensee pursuant to this License.

19.3 Nothing in the engagement with another will derogate from the obligations and of the Licensee and its responsibility for performing any of the services pursuant to this License, in whole or in part, pursuant to the provisions of this License, nor will it serve to derogate from the powers of the Minister, the Director or anyone acting on their behalf.

[A2] Amendment No. 2

Part B: Means of Control – Changes and Limitations

20. Particulars of Licensee

20.1[A43)] Details regarding the Licensee's legal entity, incorporation, holders of the controlling interest, holders of a material influence, interested parties and officers, are attached as Addendum A to the license. The Licensee must submit to the Director, every year at the beginning of January, an updated Addendum A.

20.2 The Licensee will report to the Director in writing regarding any change in the information contained in Addendum A, including any transfer and acquisition of control or of 5% of the means of control in the Licensee company or change in the appointment of a director or general manager, within 14 days of the date of change.

21. Transfer of Means of Control

21.1 There will be no transfer, directly or indirectly, of ten percent or more of any means of control in the Licensee, whether all at once or in parts, unless this received the Minister's prior consent.

21.2 There will be no kind of transfer of any means of control in the Licensee, or a part of said means of control, so that as a result of the transfer, control in the Licensee is transferred from one person to another, unless this was given the Minister's prior consent.

21.3 There will be no acquisition of control, directly or indirectly, in the Licensee, and there will be no acquisition, directly or indirectly, by a person himself or together with his relative or with another person, who operate with him regularly of 10% or more of any means of control in the Licensee, whether all at once or in parts, without the prior consent of the Minister.

21.4 Subject to the foregoing in this section, there will be no transfer, directly or indirectly, of means of control, so that the share of a cellular system operator in the Licensee drops below 25% of the voting rights in the general meeting and of the right to appoint a director or general manager, except after 5 years have elapsed since the date of the granting of the license. If 5 years have elapsed since the date of the granting of the license, the cellular system operator's share can go below 25% to the point of selling all the means of control in its possession to another, all subject to the Minister's approval for the very reduction of the cellular system operator's share in the means of control in the Licensee and also regarding the purchaser.

21.5 Notwithstanding that stated in sections 21.1 and 21.3, if traded means of control in the Licensee, not entailing the transfer of control in the Licensee, have been transferred or acquired at a rate requiring approval under sections 21.1 or 21.3, without the Minister's approval having been requested, the Licensee shall report this to the Minister, in writing, and shall submit to the Minister an application for approval of the transfer or the acquisition, all within 21 days from when the Licensee learned of this fact, provided the Minister gave his prior written approval to the holding per se of the issue or the sale of the securities to the public. In this regard, **"traded means of control"** – means of control, including deposit certificates, Global or American Depository Shares (GDRs or ADRs), or similar certificates, in respect of securities listed on the stock exchange in Israel and/or

abroad, in a non-hostile country, or means of control offered to the public pursuant to a prospectus and held by the public, in Israel and/or abroad, in a non-hostile country.

21.6 Entry into an underwriting agreement in connection with an issue or sale of securities to the public, and listing on a stock exchange in Israel or abroad, in a non-hostile country, or the deposit of securities, including deposit certificates, Global or American Depository Shares (GDRs or ADRs), or similar certificates, in respect of securities, or the registration thereof with a nominee company and/or agent, shall not in themselves be deemed as the transfer of means of control in the Licensee.

21.7 (A) Irregular holdings shall be registered in the members register (shareholders register) at the Licensee, noting the fact of their irregularity, immediately when the Licensee learns of this fact, and a notice concerning the registration shall be delivered by the Licensee to the owner of the irregular holdings and to the Minister. In this regard, **"irregular holdings"** – the holding of traded means of control without the Minister's agreement as required under section 21 or in contravention of the provisions of section 23, and the entire holdings of a holder of traded means of control who acted contrary to the provisions of section 24; the aforesaid for as long as the Minister's agreement is required and was not given under section 21 of the license or circumstances exist involving the contravention of the provisions of sections 23 or 24 of the license.

(B) Irregular holdings registered as stated in section 21.7(A), shall not confer any rights on the holder, and shall be "dormant shares" as defined in section 308 of the Companies Law, 1999, except for purposes of receiving a dividend or other distribution to the shareholders (including the right to participate in an issue of rights which are calculated on the basis of holdings in means of control in the Licensee, except that holdings added as stated shall also be deemed as irregular holdings), therefore no act or contention of exercise of a right by virtue of irregular holdings shall be valid, except for purposes of receiving a dividend or other distribution as stated.

(C) Irregular holdings shall not confer voting rights in the general meeting. A shareholder participating in a vote in the shareholders meeting shall notify the Licensee prior to the vote, or where the vote is by means of a voting instrument – on the voting instrument, whether or not its holdings in the Licensee or its vote require approval under sections 21 or 23 of the License. If the shareholders did not give a notice as stated, it shall not vote and its vote shall not be counted.

(D) A director may not be appointed to the Licensee, elected or dismissed by virtue of irregular holdings. If a director was appointed, elected or dismissed as stated, such appointment, election or dismissal, as the case may be, shall not be valid.

(E) The provisions of sections 21.7 and 21.9 shall be included in the articles of the Licensee, mutatis mutandis.

21.8 For as long as the Licensee's articles prescribe as stated in section 21.7 and the Licensee acts in accordance with that stated in sections 21.5 and 21.7, for as long as the holdings of founding shareholders or their substitutes are not reduced to less than 50% of each of the means of control in the Licensee, and for as long as the Licensee's articles prescribe that a majority of the voting power in the shareholders general meeting may appoint all the

directors in the Licensee, excluding outside directors in accordance with any relevant statutory requirement or stock exchange directive, irregular holdings shall not in themselves be cause for the cancellation of the license.

For purposes of this section, "**founding shareholders or their substitutes"** – Discount Investment Corporation Ltd., DEC Communications and Technology Ltd. and PEC Israel Economic Corporation, or any other body to which any of those enumerated above transferred, with the Minister's approval, means of control, provided the Minister confirmed in writing that the transferee body shall be deemed in this regard as the substitute of the founding shareholder beginning from the date to be determined by the Minister, and including anyone who is an "Israeli entity" as defined in clause 22.2A, who acquired a means of control from the Licensee and received the Minister's approval for being deemed a founding shareholder of its substitute starting from the date that was determined by the Minister. The grant of approval under this section shall not exempt the Licensee from the duty of receiving the Minister's approval for every transfer of means of control in the Licensee that requires approval under any other section of the license.

21.9 The provisions of sections 21.5 and 21.8 shall not apply to founding shareholders or their substitutes.

22. Encumbrance of Means of Control

A shareholder of the Licensee company or a shareholder of an interested party therein may not encumber his shares in such manner so that exercise of the encumbrance results in a change in ownership of 10% or more of any means of control in the Licensee, unless the encumbrance agreement contains a limitation by which the encumbrance may not be exercised without the prior consent of the Minister.

22A. Israeli Nationality and Holdings of Founding Shareholders or Their Substitutes

22A.1 The total holdings of "founding shareholders or their substitutes" as defined in section 21.8 (including anyone being an "Israeli entity" as defined in section 22.2A below, who acquired means of control from the Licensee and received the Minister's approval for being deemed a founding shareholder or a substitute thereof as from the date determined by the Minister), who are mutually bound by an agreement for the fulfillment of the provisions of section 22A of the license (in this section, all of the above will be deemed: "founding shareholders or their substitutes"), cumulatively, may not be less than 26% of each of the means of control in the Licensee.

22A.2 The cumulative holdings of "Israeli entities," one or more, included among founding shareholders or their substitutes, out of the total holdings of founding shareholders or their substitutes as stated in section 22A.1 above, may not be at any time less than 20% of the total issued capital and of the means of control in the Licensee. For this purpose, the Licensee's issued share capital will be calculated less the number of "dormant shares" held by the Licensee.

In this section –

"Israeli entity" – With respect to an individual – anyone who is a citizen and resident of Israel; with respect to a corporation – the corporation was incorporated in Israel, and an individual who is a citizen and resident of Israel controls it, directly or indirectly, provided indirect control is solely through a corporation incorporated in Israel, one or more. However, for purposes of indirect holding, the Prime Minister and the Minister of Communications may approve holding through a corporation that was not incorporated in Israel, provided such corporation does not hold shares in the Licensee directly, where they are satisfied that this will not be detrimental to the purposes of this section. In this regard, **"Israeli citizen"** – as defined in the Citizenship Law 1952; **"resident"** – as defined in the Population Registry Law 1965; **"dormant share"** – as defined in section 308 of the Companies Law 1999.

22A.3 At least twenty percent (20%) of the Licensee's directors will be appointed by Israeli entities as stated in clause 22A.2. Notwithstanding the above, in this regard, if the Licensee's board of directors numbers up to 14 members – at least two directors will be appointed by Israeli entities as stated in clause 22A.2 above, if the Licensee's board of directors numbers from 15 to 24 directors – at least three directors will be appointed by Israeli entities as stated in clause 22A.2 above, and so forth.

22A.4 The Licensee's board of directors will appoint from among its members having a security classification and security clearance as will be determined by the General Security Service (hereinafter – **"classified directors"**), a committee called the "Committee for Security Matters."

At least four directors will serve on the Committee for Security Matters, among them at least one outside director. Matters pertaining to security will be considered, subject to that stated in clause 22A.5 below, solely in the framework of the Committee for Security Matters.

A resolution that was adopted or an action that was performed by the Committee for Security Matters, will be deemed the same as a resolution adopted or action performed by the Company's board of directors, and it will be considered by the board of directly only if this is required under section 22A.5 below and subject to that stated in section 22A.5 below. In this clause, "security matters" – as defined in the Telecommunications Order (Designation of an Essential Service Provided by Bezeq Israeli Telecommunications Company Ltd.) 1997.

22A.5 Security matters which the Licensee's board of directors or Audit Committee are required to consider according to the cogent provisions in the Companies Law 1999 or according to cogent provisions of any other law applying to the Licensee, will be considered, insofar as necessary, by the board of directors or by the Audit Committee, with the participation of classified directors only. Non-classified directors may not participate in such meetings of the board of directors or the Audit Committee and may not receive information or inspect documents pertaining to the security matters considered in the meeting. The quorum in every such meeting will consist of classified directors only.

The Licensee will specify in its articles that an officer who by virtue of his position and by virtue of the provisions of the law or the articles should have received information or participated in meetings on security matters, and is prevented from doing so by reason of the provision of clause 22A.5, will be exempt from liability for breach of the duty of care towards the Licensee, if the duty of care was breached due to non-participation in a meeting or non-receipt of information.

22A.6 The general meeting may not assume, delegate, transfer or exercise powers that are vested in another organ of the Company, in security matters.

22A.7 (A) The Minister will appoint an observer at meetings of the Company's board of directors and committees, having a security classification and security clearance as will be determined by the General Security Service.

(B) The observer will be a government employee qualifying as a director under Chapter C of the Government Companies Law 1975.

(C) In addition, and without derogating from any duty imposed on him by law, the observer will owe the Licensee a duty of confidentiality, except as required for the fulfillment of his function as an observer. The observer may not serve as an observer or in any other position on behalf of any other entity engaging in the provision of communication services and competing directly with the Licensee, and he will avoid any conflict of interest between his function as an observer and the Licensee, except a conflict of interest stemming from his being a government employee filling the function of an observer at the Licensee. The observer will commit towards the Licensee not to serve as an observer or officer and not to hold any position or be employed, directly or indirectly, at any entity competing directly with the Licensee or being in a conflict of interest with it, except for a conflict of interest stemming, as stated, from his being a government employee filling the function of an observer at the Licensee, throughout his tenure as observer at the Licensee and during eighteen (18) after the end of such tenure.
In any case of differences of opinion as to the observer being in a conflict of interest, the Attorney General or someone on his behalf will decide in the matter.

(D) An invitation to meetings of the board of directors and its committees, including the Committee for Security Matters, will be delivered to the observer as well, who may participate as an observer at any meeting as stated.

(E) The observer's right to receive information from the Licensee will be the same as a director's right. If the Licensee is of the opinion that certain information in the nature of sensitive business information is not required by the observer for the fulfillment of his function, the Licensee may withhold delivery of such information to the observer, notifying him in this regard. If the observer is of the opinion that he should receive that information, the matter will be referred to the decision of the head of the General Security Services.

(F) If the observer saw that the Licensee adopted or is about to adopt a resolution on security matters contrary to any provision of the license, contract to section 13 of the Law or contrary to section 11 of the General Security Services Law 2002, it will notify the Licensee without any delay, in writing, such notice to be delivered to the chairman of the board of directors and to the chairman of the Committee for Security Matters, and to set a proper time in the circumstances of the case for remedying the breach or modifying the resolution, should this be possible.

Part C: Cross-Ownership and Conflict of Interest

23. Prohibition on Cross-Ownership

23.1 The Licensee, an officer therein or whoever holds more than 5% of any means of control in the Licensee, will not hold, directly or indirectly, more than one percent (5%) of the means of control in Bezeq, [A16)] another cellular system operator. Regarding this matter, "holding" – includes the holding as an agent.

23.2 Notwithstanding that stated in Section 23.1, an interested party in the Licensee that is a mutual fund, insurance company, investment company or a pension fund, may hold up to 5% of the means of control in Bezeq, another cellular system operator [A16)], provided all the following are fulfilled:

(A) It is not a controlling shareholder and does not exert, directly or indirectly, any control in Bezeq or [A16)] another cellular system operator;

(B) It has no representative or person in charge on its behalf among Bezeq's or the other cellular system operator's officers, unless required to do so by law.

23.3 Pursuant to a written request, the Minister may allow an interested party in the Licensee, as stated in Section 23.2, to hold up to 10% of the means of control in Bezeq, [A16)] another cellular system operator, when the terms stated in Section 23.2(A) and (B) are fulfilled, if he saw, to his satisfaction, that such a holding will not harm competition.

24. Prohibition on a Conflict of Interest

The Licensee, an officer therein or an interested party in the Licensee company will not be a party to any agreement, arrangement or understanding with Bezeq, [A16)] another

cellular system operator, meant or liable to reduce competition or harm it in all pertaining to cellular system services, cellphone network end-equipment and other services provided via the cellular system.

Chapter D: Setup and Operation of Cellular system

Part A: Setting Up the System

25. Definition

In this part –

"Milestones" – Stages in the setup of the cellular system, according to the timetable detailed in the engineering plan – Addendum B to the license.

26. Setup according to Plans and Specifications

26.1 In all pertaining to the setup and operation of the cellular system (in this section – network), including the technical quality of its various components, as well as the network's structure and manner of setup, the Licensee will comply with the terms and provisions in the engineering plan.

26.2 The Licensee will follow all the specifications of the Ministry of Communications and the network-related standards prescribed by standardization organizations in Israel and around the world, as well as other international organizations, in the telecommunications and wireless field as well as in any other field pertaining to the setup and operation of the network.

27. Execution Stages and Timetable

27.1 The setup rate of the cellular system, the setup milestones, the commencement date for providing the service in the various regions in Israel, will be in accordance with the timetable set in the engineering plan – Addendum B to the license.

27.2 The Licensee may not deviate from the timetable unless authorized to do so by the Director, provided the Licensee applies in writing to the Director to receive his permission immediately after realizing that difficulties have arisen that prevent it from meeting the original timetable.

27.2.1 A delay in signing agreements with a third party or obtaining approval from the planning and construction authorities will be deemed a reasonable reason for obtaining the Director's permission for deviating from the timetable, only if the Director realizes to his satisfaction that the Licensee has done its reasonable utmost in the circumstances of the matter, to come to an agreement with a third party or to receive approval from the planning and construction authorities.

27.3 The Director may approve the Licensee's request to deviate from the timetable, in whole or in part, and to stipulate conditions for its approval. The Director may also approve deviation regarding a specific milestone, provided the Licensee undertakes to catch up with the planned setup rate in the succeeding milestones.

28. Modification of Plans during Setup

28.1 The Licensee may not deviate from the engineering plan unless it has been authorized to do so by the Director under the provisions of this section. However, the placement of a Cellular Radio Center in a different site from that set in the engineering plan will not be deemed a deviation, if done within the search region. As regards this section, a "search region" denotes a territory defined in the engineering plan in which a Cellular Radio center is planned to be set up, at a specific site within the territory, and regarding which it has been stated in the engineering plan that it might be necessary to place the center in another site found in the territory.

28.2 If in the course of setting up the cellular system, the Licensee realizes that it has become necessary to deviate or depart from the engineering plan, the Licensee must apply in writing to the Director to obtain his approval for the plan. In its application, the Licensee must describe the essence and nature of the requested modification and the reasons therefor. The Licensee must attach the amended plan it proposes, to the application.

28.3 The Director may reject or approve the request, in whole or in part, and may also stipulate conditions for its approval, insofar as these are needed for the rigorous assurance of the network's quality and performance level. The Director will make a decision in the matter of the request and notify the Licensee of his decision, all within a reasonable amount of time.

29. Utilization and Construction of Infrastructures

29.1 For the purpose of setting up and operating the cellular network, the Licensee may, subject to any law, set up, maintain and operate cable or wireless transmission arteries, provided such transmission arteries will be used solely for the following:

(A) Connection between the Cellular Radio Centers forming part of the Licensee's cellular system;

(B) Connection between the Licensee's Cellular Radio Centers and its cellular exchanges;

(C) Connection between all the cellular exchanges;

(D) Connection between the Licensee's cellular exchanges and a public telecommunications system, or another cellular operator's cellular network[A16)], or other systems operating lawfully.

29.2 For the purpose of the connection described in Section 29.1, the Licensee may use also the cable or wireless transmission arteries of Bezeq or of another licensee or concessionaire lawfully authorized to provide aforesaid infrastructure services.

29.3 To remove any doubt, it is hereby clarified that use of the transmission arteries to be set up by the Licensee is solely for operating the cellular system as stated in Section 29.1, unless the Minister permitted the Licensee in the license to make other use thereof, in accordance with the terms he laid down.

30.[A16)] **Obligation of Interconnection**

30.1 The Licensee will act to effect interconnection of the network with every other public telecommunications network, operating in the territory subject to the law, jurisdiction and governance of the State of Israel (including settlements, military sites and military installations in Judah, Samaria and Gaza Strip), including with every public landline telecommunications network, international telecommunications network and cellular network of another cellular operator.

30.2 The interconnection between the network and another licensee's public telecommunications network will be effected in such manner as to enable the following:

(A) Relay of telecommunication messages between end-equipment connected to the network and end-equipment connected to the other public telecommunications network;

(B) Proper, regular provision of services by the Licensee to the other licensee's subscribers, and the provision of services by the other licensee to the Licensee's subscribers.

30.3 Interconnection may be effected either directly or indirectly, via a public telecommunications network of another general license holder, provided it enables that stated in Section 30.2.

30.4 As regards the interconnection between the network and public landline telecommunications network, the Licensee will act to set up interface points between the two networks, for each type of service (infrastructure, data transmission and communication, telephony), with at least three transition switches, unless the Director has decided otherwise at the written request of the Licensee. Setup of the interface points will be done under an agreement between the Licensee and the domestic operator licensee. Such an agreement will include, inter alia, the technical, operational and business details of the connection, the number of connections and their location.

30.5 As regards the interconnection between the network and an international telecommunications network, the Licensee will act in compliance with the provisions of Addendum J to the license.

30A.[A16)] **Rules Concerning the Implementation of Interconnection**

The Licensee will act to implement interconnection in accordance with all the following:

(A) The Licensee will verify that the network's technical and operational standards comply wit the requirements for linkup with the public telecommunications network of the domestic operators, the other cellphone operators, and the international operators (hereinafter – **other operator**), that the network's activities will mesh properly with the activities of the other operator's public telecommunications network, and that the interconnection will not adversely affect the proper functioning of these networks and the normal service to their subscribers;

(B) The Licensee will provide the interconnection service under equal conditions for every other operator and avoid any discrimination in actuating the interconnection, including with regard to the following:

(1) Supply of infrastructure facilities and network linkup services;
(2) Availability of linkup facilities;
(3) Linkup method, quality and survival;
(4) Alterations and adaptations in the switching in the facilities, in the protocols and at the network interface points;
(5) Payments for interconnection;
(6) Debiting and collection arrangements, and the transfer of information regarding subscribers;
(7) Commercial terms for effecting interconnection;
(8) Submission of information regarding the network and alteration therein relating to interconnection;

(C) The Licensee will place at the disposal of the other operator any essential information the other operator needs for providing its services via the Licensee's facilities. Said information will be given subject to any law concerning the protection of privacy or commercial confidentiality. In the event the parties fail to reach an agreement regarding the nature and scope of the essential information, the Minister will decide in the matter;

(D) The Licensee will give the other operator information regarding alterations planned in its network, which may affect the interconnection with the other operator's public telecommunications' network, or the interconnection between the public telecommunications networks of the other operators. The Licensee will provide the aforesaid information in such manner as to enable the other operator to prepare reasonably for the implementation of said alterations;

(E) As regards Subsections (C) and (D), the Licensee may stipulate the provision of information to the other operator on signing a reasonable privacy protection agreement, intended to safeguard the Licensee's rights under any law, including trade secrets, intellectual property rights and the like, pertaining to information regarding modification of the network meant to be given to the other operator;

(F) The terms in respect of interconnection between the network and the other operator's public telecommunications network will be formalized in an agreement between the Licensee and the other operator. If the parties fail to reach an agreement, the Minister will decide in the matter.

(G) (1) The Licensee will allow its subscribers to receive all the services offered to them by another operator, The Licensee may also allow another operator's subscribers to receive services from the Licensee, provided that said receipt of services is possible under any law.
(2) The Director may order the Licensee to allow the other operator's subscribers to receive services provided by the Licensee, provided that such receipt of services is possible technically and under any law.
(3) Notwithstanding that stated in Subsection (1), the Director may, at the written request of the Licensee, exempt the Licensee from the obligation of allowing its subscribers the possibility of receiving services from another operator, for technical, economic reasons or for other justified reasons.

(H) The Licensee will forward to the Director a signed copy of every agreement between it and the other operator concerning interconnection;

(I) The Licensee will forward to the Director on demand, any information given to the other operator under Subsections (C) and (D), as well as a copy of every confidentiality agreement under Subsection (E);

(J) The Licensee will act in compliance with additional provisions the Minister will prescribe.

30B.[A16] **Payment for Traffic Completion and Interconnection**

In the event the Minister did not determine payment for interconnection or payment deriving from interconnection, the Licensee may demand in respect thereof reasonable and non-discriminatory payment.

30C.[A16] **Prohibition on Delaying Interconnection**

The Minister will give the Licensee a reasonable opportunity to voice his position in all pertaining to the Minister's intention to order it regarding the manner of effecting interconnection and its scope, regarding the actions, services and arrangements incidental to effecting interconnection, and regarding payments in respect of interconnection. Once the Minister has instructed the Licensee on said matters, the Licensee will not delay in any way interconnection with the network, and will fulfill its obligations in accordance with the Minister's provisions, properly and in good faith, on the date set therefor and with full cooperation.

30D.[A16] **Providing the Possibility of Utilization**

30.1D The Minister may order the Licensee to provide the possibility of utilizing its telecommunications facility, by virtue of his authority under Section 5 of the Law.

30.2D The Licensee will enable another licensee, by the Minister's order, to provide value added services via the Licensee's network. The Licensee will ensure reasonable and equal terms for any other licensee, in all pertaining to the provision of value added services by the latter to the Licensee's subscribers.

30.3D As regards providing the possibility of utilization, the provisions of Sections 30A to 30C will apply, mutatis mutandis.

30E.[A16] **Infrastructure Services for an Interested Company**

30.1E The Licensee will not give preference, in providing infrastructure services, to a licensee that is an interested company over another licensee, whether in payment for the service, in service conditions, in service availability or in any other way.

30.2E (A) Pursuant to a written request from the Licensee, the Director may permit the Licensee limitations on the provisions of Section 30.1E, in all pertaining to another licensee or a broadcasting licensee that is an interested company, provided the following conditions are fulfilled:
(1) The other licensee or the concessionaire is not a material operator:
(2) The Director is of the opinion that giving such permission does not materially harm competition in the field of telecommunications.

(B) As regards the limitations stated in Subsection (A), these may allow the Licensee to offer an interested company the use of its telecommunications facilities under preferred conditions, and these may be limited in time or by another condition.

(C) When considering a permit under this section, the Director will take into account the existence of a valid agreement, which was signed prior to Amendment No. 16 to this license, between the Licensee and the interested company, concerning, inter alia, the restriction of the permit in time or by other conditions.

30.3E In this section – "**interested company**," "**subsidiary**," and "**material operator**" – as these terms are defined in the Telecommunications Regulations (Procedures and Conditions for Obtaining a General License for Providing Domestic Landline Telecommunications Services), 2000.

30F.[A16)] **Numbering Program**

30.1F The Licensee will act in accordance with the numbering program, and in compliance with the Director's provisions regarding the activation and implementation of the numbering program.

30.2F The Director ordered the activation of number portability, so that every subscriber of another cellular system licensee will be able to switch over to and be a subscriber of the Licensee or receive services from the Licensee without any change in his telephone number, and vice versa – the Licensee will incorporate into its public telecommunications network devices enabling the application of this property, on the date and using the method laid down in the Director's provision.

31. Reports on the Setup Works

31.1 The Licensee will submit to the Director, throughout the cellular system setup period, quarterly reports describing the setup works carried out during the period of each report, according to the milestones and timetables in the engineering plan. As regards this section, "the setup period" denotes 15 months from the date the license was granted or until the date of the completion of the network's setup in full deployment, according to the engineering plan, whichever the earlier.

31.2 The reports will include a comparison of the plans' execution versus the plan for each report's period, as well as explanations for any deviation or alteration that occurred in the execution compared with the plan.

31.3 Each report will be submitted in triplicate in a format to be instructed by the Director, and will bear a date and be signed by the Licensee or whoever it empowered especially for this purpose.

31.4 The Director may demand that the Licensee prepare special reports, and also that it draw up anew or supplement a report submitted to him.

32. Handover of Information and Documents

The Licensee will furnish to the Director, on demand, any information or document regarding the execution of cellular system setup works, at the time, in the format, and in the manner instructed by the Director.

33. Supervision of Setup Works

33.1 The Director may supervise, by himself or through a designee, the Licensee's actions connected with the execution of the setup works. To this end, the Director may enter at any reasonable time, the Licensee's work sites, cellular system facilities and offices, for the purpose of making measurements, performing inspections and perusing any plan or document pertaining to the execution of the setup works.

33.2 The Licensee will cooperate with the Director in all pertaining to the supervision of the setup works, and without derogating from the generality of the foregoing, will enable him to enter the work site and its facilities, enable the perusal of any document, plan and specification, and provide him with any information he requests.

34. Correction of Deficiencies and Defects

34.1 The Director may notify the Licensee in writing about deficiencies, defects and deviations he found in the cellular system setup operations, based on reports submitted by the Licensee, documents and information it furnished him, or based on measurements and inspections he made.

34.2 In the event the Licensee receives a notice as stated in Section 34.1, it will notify the Director, within fourteen days of the date of receiving the notice, regarding its response to that stated therein and the measures it took or plans to take, in order to correct the deficiencies, defects or deviations.

35. Safety Precautions and Prevention of Hazards

35.1 The Licensee will execute the setup works, taking adequate safety precautions to prevent personal accidents and property damage, will prevent the causation of nuisances and hazards to the public in the work areas, and if required to do excavations at the spot, will do everything to prevent damages to underground systems, including telecommunications networks, and to this end will make sure to obtain every permit required by any law, including an excavation works permit under Section 53B of the Law.

35.2 Upon completion of the setup works, the Licensee will make sure to clean up the work sites and restore them to their previous condition.

36. Void.[A2A2)]

37. Intersections with Electricity and Telecommunications Lines

In a place where there are electricity lines or electricity facilities prior to the installation of the cellular system, the Licensee is subject to the obligations imposed under the Telecommunications and Electricity Regulations (Convergence and Intersection between Telecommunications Lines and Electricity Lines), 1986.

38. Discovery of Antiquities and Site Preservation

38.1 Antiquities, as defined in the Antiquities Law, 1978, which are discovered at a setup work site, are state assets, and the Licensee will take the appropriate precautions to prevent damage thereto.

38.2 The Licensee will notify the director of the antiquities authority regarding the discovery of an antiquity within 15 days of the date of the antiquity's discovery and will follow the instructions of the authority's director in all pertaining to the manner of handling the antiquity.

38.3 In the course of the setup works, the Licensee will avoid, inasmuch as possible, damaging sites of historical or national value, tourist sites and landscape.

38.4 The Licensee will avoid, insofar as possible, damaging buildings and trees found in the places where setup works are being carried out.

39. Land-Related Powers

39.1 The Minister may, at the Licensee's request, grant it all or some of the powers prescribed in Chapter F of the Law, subject to that stated in Section 39.2.

39.2 The Licensee will specify in its request the sites at which it requires the aforesaid powers, the scope of the required powers and the reasons therefor, including the steps it took to find alternative sites, without having to use the power under Chapter F of the Law.

39.3 In the event the Minister is convinced of the need to grant the Licensee powers under Chapter F of the Law, the Minister will publish his decision in the *Reshumot* (Official Announcements and Advertisements Gazette).

Part B: Equipment Checks and Installation Certifications

40. Compliance Check

The Director may determine which items of equipment should not be installed in the Cellular System before undergoing a compliance check. "Compliance" as regards this section – as emerges from that stated in Section 41. If the Director has decided as aforesaid, the items will not be installed before undergoing a compliance check.

41. Responsibility for Compliance

It is the responsibility of the Licensee to see to it that the equipment installed in the Cellular System is, at least, technically compliant with the properties detailed in the manufacturer's specifications relating to the specific item of equipment, and attached to the engineering plan.

42. Performance Testing Program and Its Approval

42.1 The Licensee will furnish the Director, no later than 30 days before giving notice of the completion of installation under Section 43, with an up-to-date, detailed testing program for carrying out the performance check, relating to that part of the Cellular System it wishes to operate (hereinafter – detailed testing program).

42.2 The Licensee will present the detailed testing program to the Director. The Director may demand within 15 days of the aforesaid presentation that the Licensee make changes in the detailed testing program or complete it, if he deems it necessary for the full and accurate execution of the performance check, and the Licensee will carry out the checks according to the Director's request.

43. Notice of Setup Completion

Once the Licensee has completed setting up a Switchboard or Cellular Radio Center in some region, so that it is possible to start providing cellular services through it, the Licensee will notify the Director in writing thereof, in the format it was instructed by the Director, along with the results of the detailed check indicating successful installation and operation.

44. Terms of Fitness and Operation

44.1 Prior to operating the network, the Licensee must meet the requirements and conditions detailed below:

(A) **Entering into an Agreement with an Equipment Manufacturer**

The Licensee must have agreements in force for the entire operation period planned, with a Cellular System manufacturer, comprising the following:

(1) Know-how agreement;
(2) An agreement guaranteeing the supply of parts for the network's equipment for a period of at least 7 years;
(3) An agreement guaranteeing the supply of technical literature and full documentation of the network's equipment, including updates.

(B) **Lab and Testing Equipment**

The Licensee must operate a lab, or have a valid agreement with a competent lab. The lab should include professional testing equipment for performing the checks and making the repairs on the Cellular System equipment, including mobile testing equipment.

(C) **Parts**

The Licensee must maintain and run a spare parts warehouse for Cellular System equipment according to the recommendations of the equipment manufacturers.

(D) **Maintenance System**

The Licensee must maintain, on its own or through another, an efficient maintenance system, consisting of maintenance personnel, service vans and communication means, ensuring the proper, ongoing operation of the network and enabling the handling of any malfunction within the response time required under this license, and also enabling, in any case of a serious problem with the Cellular System causing radio interferences, large-scale disconnection of subscribers or posing a safety risk, repair of the malfunction within 4 hours.

(E) **Communication Means**

Means of communication, such as a walkie-talkie, telephone or cellphone, should be installed in the operation exchanges and centers, as well as in the service and maintenance centers.

44.2 The Licensee must present to the Director, seven days before setting the network in operation for the first time, certifications and documents regarding compliance with the requirements and conditions specified in Section 44.1. In the event the Director fails to respond within five days of the date of delivery of said documents, the Licensee may operate the Cellular System and connect subscribers thereto. If the Director orders the Licensee, based on the documents' findings, to alter or fix the network, the Licensee must make the required alteration or correction and present a certification of execution to the Director, and if the Director fails to respond within 3 days, the Licensee may operate the system.

Part C: Use of Frequencies

45. Allocation of Frequencies[A16)]

45.1 The Licensee may operate the Cellular Radio centers of the Cellular System, using the frequency bands allocated for its exclusive use, as detailed below:

(A) [A35)] 835 to 845 MHz and corresponding range 880 to 890 MHz;

(A1) [A35)] 1710 to 1712 MHz and corresponding range 1805 to 1807 MHz;
That stated in this subsection in no way derogates from the Director's authority to allocate an alternative frequency band with identical bandwidth for the Licensee's use, instead of the frequency band specified in this subsection.

(B) Starting from February 1, 2002 to January 1, 2004 the following bands will be allocated:
1710 to 1715.4 MHz and corresponding range 1805 to 1810.4 MHz;
1716.6 to 1721.2 MHz and corresponding range 1811.6 to 1816 MHz;
1962 to 1967 MHz and corresponding range 2152 to 2157 MHz;

(C) Starting from January 1, 2004 the following bands will be allocated:
1720 to 1730 MHz and corresponding range 1815 to 1825 MHz;
1960 to 1970 MHz and corresponding range 2150 to 2160 MHz;
as well as the frequency range 1905 to 1910 MHz.

(C1) [A2A26)] Starting from April 4, 2004 the following frequency bands will be allocated:
1715 to 1720 MHz and corresponding range 1810 to 1815 MHz.

(D) Notwithstanding the foregoing, in the event the Licensee asks to postpone the usage commencement date for the frequencies specified in subsections (B) and (C), or a part thereof, to a later date, the Director may suspend the allocation of frequencies to a date he decides on.

45.2 The Licensee may select a narrower frequency band than that stated above in the framework of the frequency bands specified in Section 45.1.

45.3 In the event of detection of electromagnetic interferences from other radiants that can harm the proper functioning of the Cellular System, the Director must, at the Licensee's request, take any reasonable action to find an appropriate solution or stop the aforesaid interferences.

46. Restriction on Use of Frequencies

The Licensee will make use of the frequencies allocated to it as stated in Section 45 only for providing the services under this license.

47. Prevention of Interferences

47.1 The Licensee will set up the Cellular System and operate it in such manner so that no part of its parts will emit radiation prohibited under the provisions of the Pharmacists'

Regulations (Radioactive Elements and Their Products), 1980, and do everything required, if required, to obtain a permit in accordance with the aforesaid regulations.

47.2 The Licensee will coordinate the use of the frequencies with the Director, who will base his directives, inter alia, on the program derived from the preparation for a national emergency crisis.

47.3 The Licensee will submit to the Director, or anyone appointed for this purpose on its behalf, a detailed, up-to-date plan for the operation of Cellular Radio Centersand for the expected use of the frequencies at least 60 days before the operation, and will report to the Director regarding the actual execution, within 7 days of the operation date.

47.4 The Licensee will set up and operate the Cellular System in such a manner as to prevent interferences with other Bezeq and wireless systems operating lawfully. Prior to the activation of any Cellular System, the Licensee will perform tests and measurements for the purpose of preventing electromagnetic interferences. If found that electromagnetic interferences can be expected or interferences have been detected during operation, the Licensee will act to find a solution that will prevent these interferences and also prevent their recurrence, and in the absence of a solution it will turn in writing to the Director or to anyone appointed for this purpose on its behalf, in order to find a reasonable solution in this regard. The Director may demand that each of the parties make changes in the operation of the equipment or in the use of the frequencies or that they stop broadcasting over certain frequencies, throughout the country or in a certain region.

47.5 The granting of this license, including the approval of the engineering plan, in no way provides protection against harmonies from other radiants operating lawfully, or other radiants operating outside state territory; however, the Director must make every reasonable effort to find an appropriate solution providing the necessary protection.

48. Cellphone Activity in Emergencies

48.1 In times of national emergency or for national security reasons, the one empowered to do so by any law may take the steps needed for state security, with a notice to the Licensee [A2A2)], including control of the network. In such circumstances, the Licensee will operate according to the instructions and notices of those authorized to do so by any law, including the government, the Minister, the Director and head of the unit for the management of a broadcasting spectrum and satellites in an emergency (hereinafter – head of the emergency unit).

48.2 The Licensee will give the head of the emergency unit the names of its representatives authorized to receive instructions and notices anytime, 24 hours a day, in all pertaining to national emergency and security matters. The representative will have a first and second deputy, who will substitute for him during his absence.

48.3 The Licensee will set up and operate the network in a manner that will allow reducing the network's activity, when necessary, during times of emergency:
(A) In terms of the frequency profile;
(B) In terms of the geographical profile;

(C) Through the disconnection of part of its subscribers, according to predetermined lists, or according to directives deriving from the situation;
(D) In terms of a profile combining profiles A, B and C.

48.4 The Licensee will organize itself in such manner, so that it will be able to carry out the reductions detailed in Section 48.3 rapidly and efficiently, by remote control or by presence at the sites themselves.

48.5 The head of the emergency unit may establish a detailed procedure formalizing and regulating the Cellular System activity during an emergency, which he will present to the Licensee, and the latter will strictly fulfill the provisions of this procedure.

Part D: Inspections and Maintenance[A43)]

49. Definitions

"**Periodical inspection**" – An inspection of the network or any part thereof performed according to the license's provisions, at fixed time intervals and at least once every half year;

"**Special inspection**" – An inspection of the network or any part thereof performed due to a maintenance action or repair, following electromagnetic interferences, a malfunction, clarification of a complaint, a technological modification, an alteration in the engineering plan or the like;

"**Regular inspection**" – An inspection of the network or any part thereof, done on a regular, ongoing basis.

50. Performance of Inspections

50.1 The Licensee will carry out periodical inspections on the Cellular System and will submit the results of the inspection, at the Director's request, within 30 days of the day of the request.

50.2 The Licensee will set up and operate a control system for continual monitoring of the performance and functionality of the network, and will perform, on an ongoing basis, regular inspections of the network or any part thereof, as necessary.

50.3 The Licensee will perform a regular inspection for quality of the service as detailed in Addendum E, including compliance with relevant ITU-T standards, and will submit the results of the inspection, at the Director's request, within 30 days of the day of the request.

50.4 The Director may instruct the Licensee to perform a special inspection; The Licensee will perform such inspection in the format and at the time specified by the Director and will submit its results to him.

50.5 The Director or anyone so authorized by him will be allowed to carry out inspections himself, where he deems this to be necessary; The Licensee will permit the Director or anyone so authorized by him access to the installations and the equipment, subject to prior coordination, and will place at his disposal testing equipment used by it or professional manpower employed by it.

51. Inspections, Malfunctions and Maintenance Log

51.1 The Licensee will manage an inspections, malfunctions and maintenance log (hereinafter – maintenance log), in which details of the malfunctions in and inspections of the network are recorded.

51.2 The Licensee will keep the maintenance log and enable the Director or a representative authorized by him to peruse it at any time, to examine it or copy it in any manner, and will submit it for inspection by the Director at his request.

52. Repair of Deficiencies and Defects

52.1 The Director may, after giving the Licensee sufficient opportunity in the circumstances of the case to present its case to him, notify the Licensee in writing of deficiencies and defects he found that are affecting the level of the service to Subscribers, the level of survivability and backup of the network or the safety level or interfering with other lawfully operating systems, based on a follow-up of the network's performance, including by means of Subscribers' complaints or inspections carried out by him or on the basis of inspection reports, documents and information provided to him by the Licensee.

52.2 The Director may instruct the Licensee regarding the times by which it must correct the deficiencies and defects.

52.3 In the event the Licensee received such a notice, it will notify the Director, within the time set for this purpose in the Director's notice, of the correction of the deficiencies and defects, at the level of detail requested by the Director.

53. **Void.**

54. **Void.**

Chapter E: Providing Cellular Services to Subscribers

Part A: Entering into an Agreement with Subscribers

55.[A43)] The Contract

55.1 The Licensee will prepare a wording for the contract that it intends to offer its subscribers, and will submit it for the Director's perusal at his request.

55.2 The terms of the contract shall not contradict, explicitly or implicitly, the provisions of any law or the provisions of the license: The aforesaid shall not prevent the stipulation of various provisions in the contract that benefit the subscriber compared to the provisions of the law or the license.

55.3 The contract will be in writing and laid out in a clear manner conducive to reading and comprehension and specifying prominently any term or limitation on the subscriber's right to cancel the contract or on the Licensee's liability toward the subscriber; Any stipulation in the contract shall be stated explicitly and not by way of reference.
For purposes of this section, "writing" – including an electronic document that can be saved and retrieved by the subscriber.

55.4 The contract will include, *inter alia*, in a clear manner, the following:

(a) Terms of the service to the subscriber, including quality measures for customer and subscriber service as detailed in section 2 in Addendum E;

(b) Terms for disconnecting from the Licensee's services or service discontinuation terms;

(c) Licensee's rates for the services for which the subscriber registered, as of the day of the agreement, including the date and terms for termination of the rates program;

(d) Limitation on the rate of arrears interest, linkage differences and collection expenses, as stated in section 80.3;

(e) Condition for changing the rate for the service for which the subscriber registered, as stated in section 78.1;

(f) The details set out in sections 61 and 61A regarding the public ombudsman and umpire.

(g) Condition specifying that in case of a contradiction between the provisions relating to the rates and to the basket of services detailed in the contract, and the provisions of the license in this regard, the provisions of the license shall prevail;

(h) Notice concerning the Director's authority to instruct the Licensee to modify the contract, and a clarification that the subscriber's engagement with the Licensee under the contract constitutes agreement to such modification.

55.5 The Licensee will deliver to the subscriber a copy of the contract and its appendices.

56. [A43] **Modification of Contract**

56.1 The Director may instruct the Licensee to modify the contract, after giving the Licensee sufficient opportunity to present its case.

56.2 If the contract was amended pursuant to the Director's instructions or pursuant to a decision of the Standard Contracts Court, in the event that the contract was submitted for its approval, the engagement between the Licensee and the subscriber will be in accordance with the amended contract, as from the date of the amendment.

56.3 The provisions of section 55 shall apply, *mutatis mutandis*, to an amendment of the wording of the contract by the Licensee.

56A. [T47] **Period of Commitment under a Contract**

56A.1 Where the Licensee entered with a subscriber who is not a business subscriber into a contract that includes a commitment, the period of the commitment may not exceed eighteen (18) months.

In this regard, **"commitment,"** – the subscriber's commitment to comply with conditions relating to the scope of consumption of services, the amount of the payment or the payment terms, during a defined period, where noncompliance with such conditions during such period entails a payment, including the return of a benefit or an exit fee.

56A.2 Where the Licensee proposed to a subscriber who is not a business subscriber to enter into a contract that includes a commitment, the Licensee will present to such subscriber a proposal to enter into a contract that does not include a commitment, as a reasonable alternative to contracts that include a commitment. In this regard, a contract containing a "prepaid" plan will not be deemed a reasonable alternative to a plan that includes a commitment.

56A.3 If the Director finds that the Licensee has violated Section 56A.2, he may direct the Licensee to modify conditions in a contract that does not include a commitment, without thereby derogating from any other power established in the License or in any law. In this regard, the Director will consider, *inter alia*, the number of subscribers of the Licensee who are signed on contracts that do not include a commitment.

57. [A43] **Void.**

58. [A43] **Void.**

[T47] Amendment No. 47.

59. Obligation of Connecting Applicants and Prohibition on Stipulation

59.1 If the Licensee has met the terms for operating a Cellular System as stated in Section 44.2, the Licensee will connect any applicant to the cellular network no later than the date set in the contract with the subscriber, unless the Director has authorized the Licensee not to connect the applicant, under circumstances he deems justified. [A2)]

59.2 The Licensee may not stipulate the connection of an applicant on unreasonable, discriminatory or unfair terms, and without derogating from the generality of the foregoing:

The Licensee may not require a subscriber to purchase end-user equipment from it or from its designee;

The Licensee may not require the subscriber to receive maintenance services from it for the end-user equipment in the subscriber's possession;

The Licensee may not stipulate or condition cellular services, service conditions or a rate on the purchase of cellular end-user equipment from it or from any other.

59.3 Void. [A1)]

Part B: Service Level for Subscribers

60.[A16)] **Obligation of Maintaining the Service**

60.1 The Licensee will put at the disposal of its subscribers all the services detailed in the First Schedule, in accordance with the terms detailed in the schedule, and will maintain all its services all year round, around the clock, both in times of calm and in times of an emergency, subject to Section 48, in accordance with the technical requirements and service quality requirements, in a proper and regular fashion, and of a quality no lower than that indicated by the service quality indexes specified in the first schedule to the license and in Addendum E to the Second Schedule to the license. In the event of a contradiction between the First Schedule and Addendum E to the license's Second Schedule, the provisions of Addendum E to the Second Schedule will prevail.

60.2 Without derogating from that stated in Section 75.3, the Licensee will provide cellular services and a service package, as this term is defined in Section 73A, to every applicant, under equal and non-discriminatory terms and at a non-discriminatory rate.

60.3 If the Director has found that the service package is liable to harm competition or the consumers, he will notify the Licensee thereof, indicating the date by which the Licensee must stop offering its subscribers the service package.

60.4 If the Licensee provides any cellular service to any person or organization, for payment, the service must be available to any subscriber throughout the network coverage area, complying with the minimal requirements as regards service quality, without discrimination, within 24 months of the date of commencing provision of the service for payment.

60.5 The Director may, at the written request of the Licensee, allow the Licensee limitations on the provision of Section 60.4, after being convinced that there is a real difficulty in providing the service to anyone that requests it, and that the specific features of the service possess a unique and exceptional flavor justifying this.

60.6[A43)] The Licensee may not provide, with or without consideration, any of its services not explicitly requested by the subscriber, except for a service given free of charge to all the subscribers, and it may not allow the provision of a service of a service provider not explicitly requested by the subscriber.
For purposes of this section, "service provider" – anyone providing a service through the network, for which payment is made by means of the telephone bill.

61.[A43)] **Public Ombudsman**

61.1 The Licensee will appoint a person to handle complaints of the public (**"the Ombudsman"**), having the following responsibilities:

(a) Clarifying subscribers' complaints in connection with the Licensee's services, including the complaint of someone applying to receive a service.

(b) Clarifying subscribers' complaints in connection with bills that were submitted by the Licensee, and deciding in regard thereto.

The Public Ombudsman will respond in writing to complaints as stated that were submitted in writing.

61.2 The Public Ombudsman will act according to a policy to be set by the Licensee's management.

61.3 The Licensee will render the Public Ombudsman all the assistance required by him for filling his function.

61.4 The Licensee will notify every subscriber regarding the possibility of submitting a complaint to the Public Ombudsman, the powers of the Public Ombudsman and the ways of applying to him. The contents of this sub-section shall be included in the contract, in the bill sent to the subscriber and on the Licensee's website.

61A. [A43)] **Umpiring of Disputes**

61A.1 The contract will stipulate that any disagreements arising between the Licensee and a subscriber in connection with the interpretation or performance of the contract, shall be submitted for clarification to the Licensee's Public Ombudsman.

61A.2 The contract will specify that an application to the Public Ombudsman under section 61A.1 shall not:

(a) Prevent the subscriber *a priori* from bringing his case before a competent court;

(b) Derogate from the Licensee's authority to act in accordance with the provisions of section 72 regarding the discontinuation or disconnection of a service owing to a breach of the contract.

62. Obligation of Maintenance

62.1 The Licensee is responsible for the maintenance of the Cellular System.

62.2 If a subscriber purchased cellular end-user equipment from the Licensee or from its designee, and the purchase agreement included maintenance services, the Licensee[A43)] will be responsible for the maintenance of said purchased end-user equipment, however the Licensee[A43)] will not be responsible for the maintenance of said purchased end-user equipment beyond the maintenance period undertaken by the manufacturer, unless agreed otherwise between it and the subscriber.[A2)]

If, in order to receive cellular services, the subscriber used cellular end-user equipment not purchased from the Licensee or from its designee, the Licensee is not obligated to look out for the maintenance of this end-user equipment, but may enter into an agreement with the subscriber for providing maintenance services also for said equipment.

63. Repair of Malfunctions

63.1 The Licensee will maintain a regular service for handling subscribers' calls concerning problems with receiving cellular services, and to this end will operate centers for receiving messages from subscribers all year round (excluding Yom Kippur), and 24 hours a day (hereinafter – call center).

63.2 Without derogating from the generality of that stated in Section 63.1, the Licensee will operate the call center in a manner enabling the receipt of complaints from subscribers via telephone, in all pertaining to the Licensee's services.

63.3 The call center will be manned by skilled and professional personnel, having the appropriate competence for handling problems, and if a complaint has been received regarding a malfunction that led to disruption of the service or regarding poor reception quality, said personnel will act immediately to localize the malfunction and start taking measures to correct it, as detailed in Addendum E.

63.4 The Licensee will repair any malfunction for which a notification was received at the call center, within the response time detailed in Addendum E. If identification or repair of the malfunction necessitates a visit at the subscriber's site, the Licensee will coordinate the repair date in advance with the subscriber, provided that the length of time the subscriber has to wait on said date does not exceed 4 hours.

63.5 The Director may, at the Licensee's request, extend the repair time for the malfunction if he deems that the time required for its repair exceeds that stated in this section, provided that the time is not extended by more than 5 days from the date on which the malfunction occurred. If the Licensee applied to the Director for extension of the malfunction repair time as stated, and no approval was given yet, the Licensee will continue to work to repair the malfunction at the soonest possible.

63.6 The Licensee will specify in the maintenance log the details of the malfunction and the steps taken to repair it, all as stated in Section 52.

64. End-user equipment – Selling and Renting

The Licensee may sell or rent out to its subscribers cellular end-user equipment for the purpose of linkup to the Cellular System, provided it complies with the following:

The Licensee has notified the subscriber that he may purchase cellular end-user equipment from any licensed marketer and that he does not have to buy the equipment from the Licensee in order to receive cellular services;

The Licensee will not stipulate the provision of maintenance services for cellular end-user equipment on the very receipt of cellular services from the Licensee, and will notify the subscriber that he may receive maintenance service for end-user equipment, from any person, including the end-user equipment purchased or rented from the Licensee.

65. Public Emergency Services

65.1[A21)] The Licensee will enable, anytime and at no charge, for all its subscribers, free and rapid access to public emergency services such as: Magen David Adom, the Israel Police and the Fire Station.

65.2[A42)] Starting from April 5, 2007 ("the inception day") the Licensee will enable the call centers of the public emergency systems[a] to identify the telephone number of a subscriber calling them[b], anytime and at no charge, including a subscriber with a confidential telephone number, a subscriber who blocked his number before the call and a subscriber calling from a private exchange.

The Licensee may do the aforesaid through a licensee that routes the call to the public emergency system.

Not later than two days before the inception day[A44)] the Licensee will notify all its subscribers, clearly, in writing, that starting from the inception day it will be possible for the call centers of the public emergency systems to identify the subscriber's telephone number, and it will notify in writing any subscriber requesting a "confidential number" – that the number is not confidential with respect to calls to the call centers of the public emergency systems.

65A[A21)] Blocking Service to a Nuisance Subscriber

65.1A Notwithstanding that stated in Section 65.1, the Licensee will block a nuisance subscriber's access to the public emergency service. If blockage of public emergency service alone is not technically possible, then the Licensee will block the nuisance subscriber's access to all the cellular services. As regards this section, a "**nuisance subscriber**" denotes a subscriber who has contacted a certain emergency center, for no justifiable reason, more than 10 times during one whole day, using the end-user equipment in his possession.

65.2A A notice regarding a nuisance subscriber will be submitted in writing to the Licensee by a senior employee in the public emergency service (hereinafter – the employee) and will be corroborated by an affidavit signed by the employee (hereinafter – the complaint). The complaint will include, inter alia, the name of the nuisance subscriber, his telephone number, insofar as these are known to the complainant, as well as a specification of the contact times of the nuisance subscriber, and the content of the call showing that the contact was made without any justifiable reason. If the complaint does not include the telephone number of the nuisance subscriber, the Licensee will act in a reasonable fashion, to identify the nuisance subscriber based on the data provided in the complaint.

65.3A The Licensee will block the nuisance subscriber's access to the emergency service as stated in Section 65.1A, after giving the nuisance subscriber advance warning. The notice will be given 3 workdays before the date of service blockage, in one of the following ways:

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[a] Israel Police – 100, Magen David Adom – 101, Fire Station - 102

[b] Excluding a subscriber that his end user equipment permits dialing only to the call centers of the public emergency systems, such as a non SIM card cellphone in a GSM network

A. A phone call from a service center of the Licensee to the cellphone end-equipment of the subscriber;

B. An SMS message sent to the cellphone end-equipment of the subscriber;

C. Delivery of a registered letter to the subscriber, except for one who is a prepaid subscriber and his address is unknown.

65.4A Blockage of service to a nuisance subscriber who is a prepaid subscriber whose address is unknown will be done no later than one full day from the time of receiving a complaint or identification as stated in Section 65.2A.

65.5A Notwithstanding that stated in Section 65.1A, the Licensee will not block the public emergency service to a subscriber, if the circumstances of contacting, as these emerge from the explanation given by the subscriber to the Licensee, show that the contacting was justified and that he should not be deemed a nuisance subscriber. The Licensee will forward to the Director, within 10 workdays from the date of receiving the complaint or the identification as stated in Section 65.2A, the arguments for not blocking the nuisance subscriber.

65.6A In the event it blocked the nuisance subscriber's access to emergency calls, the Licensee may collect from the subscriber all his debts, and may also collect payment from him for removing the block.

65.7A The Licensee may remove the block once the nuisance subscriber has given it a written undertaking not to repeat his nuisance calls in the future.

65.8A The Licensee will keep records of how the nuisance subscriber was identified, how the notice was given to the nuisance subscriber, or, alternatively, in a case where a notice was not given the nuisance subscriber, the reasoning for not giving the notice. Likewise, a record will be kept concerning the removal of the block.

65.9A The Licensee will specify, in the framework of the nuisance subscribers report as stated in Section 104(B)[A43)], the number of nuisance subscribers whose access to the public emergency service or to all the cellular services was blocked under this section, and the subscribers for whom said block was removed, as well as the number of subscribers that were not blocked under this section and the reasons for this.

66.[A16)] Protecting Subscriber Privacy

66.1 Without derogating from the provisions of the Law, The Wiretapping Law, 1979, The Privacy Protection Law, 1981, or any other law concerning the safeguarding of an individual's privacy, the Licensee may not wiretap the telephone or any other communication of the subscriber without the written permission of the subscriber, except for the purpose of controlling the quality and standard of the service or for preventing frauds.

66.2 Subject to that stated in Section 66A, the Licensee, its workers, agents and designees may not disclose lists or documents containing the name and address of a subscriber or any

other information pertaining to him, including account details, phone call traffic, call durations and destinations, to any person whatsoever except to the subscriber or to anyone empowered by the subscriber for this purpose.

66.3 Notwithstanding that stated in Section 66.2, the Licensee may do the following:

(A) To give the subscriber's details to another licensee for the purpose of collecting monies owed him by the subscriber in respect of services it provided him through the network, provided that the information relayed is necessary fro collecting monies and preparing bills, and the other licensee has undertaken to safeguard the subscribers' privacy;

(B) To transfer a subscribers' details to another, insofar as the particulars are in its possession, by lawful authority.

66A.[T3)] **Special Services for the Security Forces**

(A) The Licensee will provide special services to the security forces as detailed in the classified security addendum attached to the license as Addendum I and in the classified security addendum attached to the license as Addendum L[A12)].

(A1)[A12)] The Licensee will enable the security forces, regarding which the Director informed in writing, to realize, subject to any law, their powers with respect to any telecommunications activity in the framework of the license, and will be responsible for the maintenance, proper functioning, and technological adaptation of the equipment and infrastructure required for realizing said execution capability, all in coordination with the security forces, as detailed in Addenda I and L. The security forces will bear the payment under the provisions of Section 13 of the Law.

(B) The Licensee will see to it that Addenda I and L are guarded [A12)] in accordance with the provisions of the procedure for safeguarding records to be laid down by the Licensee in conjunction with the security officer of the "General Security Service."

(C) The Licensee will be exempt from the duty of indemnification toward the State, by virtue of the provisions of Section 91.2 of the general license and/or by virtue of any law, in respect of the very execution of the special services for the security forces.

66B.[A12)] **Security Provisions**

(A) The Licensee will appoint a security supervisor in accordance with the provisions of the Security Arrangement in Public Bodies Law, 1998, and rigorously follow the security provisions detailed in the Addendum M to the license.

(B) The Licensee will establish appropriate provisions in the incorporation documents and in its regulations, and will act in such manner so that only a person who meets the conditions set out below will be appointed and serve in a position or function enumerated in Addendum M to the license:

[T3)] Amendment No. 3

(1) An Israeli citizen, as this term is defined in the Citizenship Law, 1952, and a resident of Israel;

(2) Was given security clearance by the General Security Service, by which there is no prevention to his serving as stated.

(C) The Licensee will act to safeguard the secrecy of the security forces' operations, and act according to the security directives of those same security forces, including in the matter of the appropriate security classification for officers and holders of important functions working for the Licensee, and compartmentalization of knowledge pertaining to activities involving the security forces.

(D) The Licensee will take the measures necessary to protect the network, its components and the databases used for providing services, and for operating and controlling the network in the face of activities carried out by unauthorized entities, according to the provisions detailed in Addendum M to the license.

67. Bills to Subscribers

67.1[A16)] A bill that the Licensee submits to the subscriber should be clear, succinct, readable and understandable. The bill should contain an accurate breakdown of the components of the payment required according to the types of payments and the rules specified in Chapter F.

67.2 A credit due a subscriber from the Licensee will be included in the successive bill immediately after the subscriber's right to the aforesaid credit has been established.

67.3 The Licensee may collect payments for his services from the subscriber through another, including through Bezeq.

67.4[A34)] (A) Without derogating from the rest of the license provisions pertaining to the manner of preparing the bill for the subscriber and to the manner of debiting, the Licensee will act in compliance with Israel Standard 5262, concerning debiting credibility and due disclosure in telephone bills (hereinafter – "the Standard").

(B) Subsection (A) constitutes a "service condition," as concerns Section 37B(a)(1) of the Law.

(C) Notwithstanding that stated in subsection (A) -

(1) Regarding the provision in Section 2.2.2 of the Standard, the rounding off method will apply as follows:

(a) An amount in the bill will be rounded off to the nearest amount ending in two digits after the decimal point of the shekel, with an amount ending in five tenths of an agora (three digits after the decimal point) to be rounded up.

(b) An amount to be paid for a single call will be rounded off to the nearest amount ending in three digits after the decimal point of the shekel, with an

amount ending in five hundredths of an agora (four digits after the decimal point) to be rounded up.

(2) The Licensee may present any amount included in the bill with a breakdown exceeding that required by the provision in Section 2.2.2 of the Standard, provided the rounding off method stated in Subsection (C)(1) above will apply thereto.

(3) The price of a phone call (voice) that includes a changing rate, will be presented in the bill submitted to the subscriber as an average price per minute, computed by dividing the payment amount for that same call by the its total number of minutes.

In this paragraph, "changing rate" denotes a rate that varies in the course of the call according to various criteria, such as a rate that diminishes with increasing consumption, or a rate that varies due to a transition from a "peak period" to a "slack period" in the course of the call or vice versa.

(4) In addition to that stated in the provision of the last part of Section 2.2.4 of the Standard regarding service packages, the bill will contain a breakdown of the services included in the package, along with the overall rate paid for the package as a whole.

In this paragraph, "service package" denotes several services marketed to the subscriber as a single package, in return for an overall rate (and without a breakdown of the payment for each component separately).

(D) (1) Chapter B in the Standard concerning due disclosure in telephone bills will come into effect no later than Friday, October 14, 2005.

(2) Chapter C in the Standard regarding debiting credibility will come into effect no later than Sunday, January 14, 2006.

67A.[A16)] **Information Service for Clarifying Telephone Numbers**[T39)]

67.1A Without derogating from the provisions of Section 66, the Licensee will provide, by itself or through another on its behalf, an information service for clarifying the telephone number of anyone who is a subscriber of a NDO or of a Cellular System operator, excluding an ID-restricted subscriber (hereinafter – "information service"), as follows:

(A) For the general public and at no charge, via a website through which the service will be provided;
(B) For its subscribers, at a reasonable price, via a phone center, the access to which will be effected by means of a network access code set by the Director;
(C) The information service will be given through each of the aforesaid means based on the same information characteristics to be provided by the subscriber applying to receive the service.

[A39)] Amendment No. 39

67.2A Without derogating from that stated in Section 67.1A, the Licensee will provide to the general public and at no charge, by itself or through another, an information service for clarifying the telephone number of any subscriber, excluding an ID-restricted subscriber, via a phone center, the access to which will be effected by means of a national access code set by the Director.

67.3A In addition to that stated in Sections 67.1A and 67.2A, the Licensee may offer, at a reasonable price, by itself or through another on its behalf, an information service, by any other means, including by means of a national access code or by means of an SMS.

67.4A In order to execute that stated in Subsections 67.1A and 67.3A:

(A) The Licensee may send a query on its behalf to any database of a NDO or cellular system operator (hereinafter – "another licensee"), or to receive information from the database of another licensee by any other method and with the consent of the other licensee, all subject to the duty of safeguarding the subscriber's privacy;

(B) In order for an information service to be provided by another licensee under its general license, the Licensee will enable any other licensee access to the Licensee's database;

(C) The Licensee will update the database on a regular basis, so that each name, address or telephone number of a subscriber that was added, altered or removed, will be updated in the database within one workday following execution of the update in the Licensee's system being used to provide telephony services.

As regards this section –
"Database" denotes a collection of data including the name, address and telephone number of any subscriber that is not ID-restricted, including a subscriber that is a business.

67.5A (A) The Licensee will request the consent of each new subscriber for including his details in the database. If the subscriber gives his consent, the Licensee will include his details in the database.

(B) The Licensee will grant the first request of any subscriber who wishes to remain ID-restricted, free of charge.
In this subsection, a "new subscriber" denotes a subscriber who has signed a contract with the Licensee after the commencement date as stated in Section 67.7A.

67.6A (A) The terms for providing an information service for clarifying telephone numbers, given under Section 67A, will be established by the Licensee, provided they are fair and non-discriminatory, including as regards the order of the data presented to the user of the service. The service will be given twenty four (24) hours a day, all year round, except for Yom Kippur. In this subsection, "order of the data presented" – Insofar as the answer to the service user's query comprises several different data, the requested data will be presented to the service user in random order.

(B) The response in respect of the information service for clarifying telephone numbers as stated in Section 67.2A will be given within a reasonable time. If the Director sees that the waiting times for the service are not reasonable, he may establish response time indexes.

(C) An information service for clarifying telephone numbers as stated in Section 67.1A(B) and an information service using a phone center, the access to which is effected by means of a national access code as stated in Section 67.3A, will comply with the service indexes specified below:

(1) At any time, in the event of a heavy service call load[6], the number of inquirers receiving service should not be less than 90%;

(2) The average waiting period of a caller until the start of receiving service[7] should not exceed 30 seconds;

(3) The maximum waiting period for a caller until the start of receiving the service should not exceed 60 seconds.

67.7A Section 67A will go into effect on February 8, 2007, except for Subsection 67.1A(a), which will go into effect on March 15, 2007 ("the commencement date"), and except for Section 67.2A[A45)], which will go into effect at the time of signing this amendment.

67.8A The Licensee, by itself or through another, including together with another licensee, will advertise all the information services for clarifying telephone numbers given free of charge by the Licensee, as well as the national access codes allocated to the cellular service licensees for providing the service ("free information services"). The advertising should include at least the following:

(A) The Licensee's website;

(B) At least once every half year, the Licensee will attach, in the framework of the bill submitted to the subscriber, a separate information sheet[A43)] regarding the free information services, which will not include any other information, starting from the first bill submitted to the subscriber following the commencement date.

(C) At least four (4) times during the first year following the commencement date, the Licensee will run large, prominent ads in at least the 3 largest Hebrew language newspapers, and in the largest newspaper in Arabic, in English and in Russian, as well as in the largest economic newspaper. These ads will include no other information. The first ad in all the aforesaid newspapers, except for the economic newspaper, will be on the first Friday after the commencement date or on the following one, and in the economic newspaper it will run on the first Tuesday after the commencement date or on the following one, regarding the free information services.

Without derogating from the foregoing, the Director may instruct the Licensee regarding the manner and format for advertising the information services.

67B.[A43)]Void.

67C.[A16)]<u>Service Dossier</u>

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6 Busy Hour Call Attempts

7 Start of receiving service – the beginning of the response by a center operator or of an IVR system, which ask the inquirer for the information needed to find the requested phone number and the like.

67C.1 If the Licensee wishes to operate a service included in the list of services in the First Schedule and marked "future", it must notify the Director of this in writing not later than thirty (30) days before the date on which it plans to begin providing the service.

67C.2 If the Licensee wishes to operate a service not included in the list of services in the First Schedule which it intends to provide to any recipient of its services, it must notify the Director of this in writing not later than thirty (30) days before the intended date for commencement of provision of the new service.

67C.3 The Director will notify the Licensee within thirty (30) days of the date of receipt of the Licensee's notice as stated in sections 67C.1 and 67C.2, whether it is allowed to commence provision of the service or whether it must submit a service dossier for the Director's approval, as a condition for commencement of the service.

67C.4 The Licensee will submit a service dossier for the Director's approval, at his request; If the Licensee fails to submit a service dossier as instructed by the Director, or if the Director does not approve the service dossier, the Licensee shall not commence provision of the service.

67C.5 The Director will give a decision regarding the service dossier that was submitted to him within sixty (60) days from when the Licensee has submitted to the Director all the documents and information requested by him for the purpose of approving the service dossier. In special cases, the Director may extend the times set in this section, by a written, explanatory notice to be given to the Licensee.

67C.6 The Director may require the Licensee to submit for his approval a service dossier for an existing service regarding which no service dossier was previously required, and he may require the Licensee to submit for his approval a new service dossier for a service regarding which a service dossier was approved in the past.

67C.7 The service dossier will be submitted to the Director in the format and at the time specified by the Director and will include, *inter alia*, the following: the name of the service; a detailed description of the service and the manner in which it is provided; the service rate, and an engineering description, all as set out in the First Schedule; The Director may give instructions on additional matters which are to be included in the service dossier.

67C.8 If the service dossier is approved, the Licensee will provide the service according to the terms of the approved dossier, and the approved service dossier will be deemed an integral part of the license.

67C.9 The Licensee will advertise an approved service dossier, with details and in the manner specified by the Director, and the Director may advertise it himself, provided he does not do so until after the Licensee has begun providing the service. The advertising will not include information comprising a trade secret, which was identified as such by the Licensee and attached to the service dossier as a separate addendum marked as a trade secret.

67C.10 Any new service which the Licensee begins to provide pursuant to this section will be deemed a part of the First Schedule; The Director will update the First Schedule from time to time.

67C.11 The provisions of this section will apply, *mutatis mutandis*, to a trial using the Licensee's network.

67D.[A24] **Erotic Service**

An erotic service provided through the network, will be provided in accordance with the provisions of Addendum O in the Second Schedule.

As regards this section –

"Erotic service" – as defined in Section 1 of Addendum O in the Second Schedule.

Part C: Termination, Delay or Restriction of Service

68. Definitions

In this part –
"Disconnection of service" – Temporary discontinuation of cellular system service to a subscriber;
"Termination of service" – Absolute discontinuation of cellular system services to a subscriber.

69. Prohibition on the Termination or Disconnection of Service

The Licensee may not terminate or disconnect cellular system services and other services, which the Licensee must provide under this license, unless that stated in this part is fulfilled, or that stated in Section 48.

70. Disconnection of Service at Subscriber's Request

70.1 A subscriber may ask the Licensee for a temporary disconnection of service for a period no less than thirty days and no longer than ninety days (hereinafter – disconnection period). The subscriber's request will be made in writing, and may be done through the cellular system end-user equipment in his possession, provided that the Licensee has verified the request's credibility by a return call to the subscriber's cellular system end-user equipment or by any other reliable way.

70.2 The Licensee will effect the disconnection of service no later than the workday following the day of the request's submittal.

70.3 The Licensee will resume the cellular system services to the cellular system end-user equipment in the subscriber's possession at the end of the disconnection period. If the subscriber requests, in a written notice, to resume the cellular system services to the cellular system end-user equipment in his possession before the end of the disconnection period, the Licensee will resume the services no later than the workday following the day on which the subscriber's notice was submitted.

71. Termination of Service at the Subscriber's Request

71. Discontinuation of Service at a Subscriber's Request

71.1 A subscriber may request the Licensee to discontinue service to the cellular end-user equipment in his possession. For this purpose, a subscriber may communicate with the Licensee in writing, including by fax or by email [T48)].

71.2 The Licensee will discontinue the provision of cellular services to the cellular end-user equipment in the subscriber's possession not later than the workday after the date specified by the subscriber in his notice. If the subscriber did not

[T48)] Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).

specify a date, the service will be discontinued not later than the workday after the date of delivery of the notice to the Licensee [T48)].

71.3[T48)] The Licensee will publish on its website, and in the bill sent by it to the subscriber, the fax number and the email address through which the subscriber may request the Licensee to discontinue a service.

(A) The subscriber did not pay for the third time during the same year the bill in respect of the payments he was charged for cellular system services on the date set therefor in the payment notice. In this section, "year" denotes the period from January 1 to December 31;

(B) There is reasonable suspicion of a fraudulent act being committed through the subscriber's end-user equipment or using the features of the end-user equipment;

(C) the Licensee found that the subscriber used the cellular system services in an unusual amount for that type of subscriber, and after the Licensee's service center contacted the subscriber in a phone call placed to the end-user equipment in his possession, and the subscriber did not give a reasonable explanation for said anomaly. As regards this paragraph, consumption will not be deemed unusual when less than threefold the average consumption for the same type of subscribers.

71A.[T48)] Blocking of Cellular End-User Equipment

71A.1 The Licensee will register the identification number of a subscriber's cellular end-user equipment, excluding cellular end-user equipment operating by the IDEN technology (hereinafter in this section **"cellular end-user equipment"**):

(a) On the date of delivery of the cellular end-user equipment to the subscriber, on the date of contracting with the subscriber or on the date of renewal of the contract, including on the date of replacement, upgrading or repair of the cellular end-user equipment.

(b) In the case of cellular end-user equipment that was not provided to the subscriber by the Licensee, the Licensee will make reasonable efforts to bring to the subscriber's attention the possibility available to him of registering with the Licensee the identification number of such aforesaid cellular end-user equipment.

(c) At the subscriber's request from the Licensee; the subscriber's request may be via the telephone, after the Licensee has verified the reliability of the request.

[T48)] Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).
[T48)] Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).
[T48)] Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).

71A.2 If a subscriber notifies the Licensee that his end-user equipment has been stolen or lost, the Licensee will block the end-user equipment of a subscriber who was registered as stated in Section 71A.1, free of charge, not later than thirty (30) days after it has verified the reliability of the subscriber's request. For purposes of this section, **"blocking"** – elimination of the possibility that the cellular end-user equipment will receive cellular services.

71A.3 The Licensee will provide details of end-user equipment that was blocked by it to any other cellular licensee, not later than the workday after implementing that stated in Section 71A.2.

71A.4 (a)[T50)] The Licensee may not provide cellular services to end-user equipment that was blocked by it or by another cellular licensee.

(b)[T50)] Notwithstanding that stated in Section 71A.2 and Subsection (a), if it is found that blocking the identification number will cause the discontinuation of service to other end-user equipment having the same identification number, the Licensee may abstain from implementing the block as stated.

71A.5 The Licensee will remove the block on end-user equipment that was blocked by it, after receiving a request [T50)] from the subscriber. Removal of the block will be done not later than one workday after the Licensee has verified the reliability of the request, unless the subscriber has specified a later date in his request [T50)].

71A.6 The Licensee will publish to all its subscribers its obligations with respect to the possibility of blocking cellular end-user equipment, the procedure for registration of the identification number of cellular end-user equipment with the Licensee and the ways of communicating with it for the purpose of implementing the block. The publication will be made in at least the following ways:

(a) In the contract;

(b) On the Licensee's website;

(c) In a separate information sheet to be enclosed with the bill submitted to the subscriber, by January 30, 2009[T50)].

71A.7[T50)] The Licensee will detail, in a half yearly report, the number of identification numbers that were blocked and the number of identification numbers in respect of which such block was removed, as well as the number of

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[T50)] Amendment No. 50.
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identification numbers that were not blocked pursuant to this section and the reasons therefor.

72. Termination or Disconnection of Service Due to Breach of Agreement

72.1 The Licensee[A16)] may terminate or disconnect the service to a subscriber if one of the following is fulfilled:

(A) The subscriber did not pay a payment he owes in respect of service he received, on the date set for its defrayal in his contract with the Licensee;

(B) The subscriber breached a condition in the contract between him and the Licensee, which was established as a material condition;

(C) The subscriber used unlawfully or allowed another to use as aforesaid the end-user equipment in his possession.

72.2 Service to a subscriber will not be terminated or disconnected in the cases detailed in Section 72.1(A) and (B), except after the Licensee gives the subscriber a notice in writing at least 10 days prior to the expected termination or disconnection date. The notice will state that the subscriber is being given an opportunity, within the time set in the notice, to rectify the act or default, in respect of which the service will be terminated or disconnected.

72.3[T2)] Notwithstanding that stated in Section 72.2, the Licensee may disconnect service to a subscriber without prior notice, if one of the following is fulfilled:

(a) The subscriber did not pay, for the third time during the same year, the bill in respect of the payments he was charged for cellular services, on the date set therefor in the payment notice. In this paragraph, "year" – the period from January 1 to December 31;

(b) There is a reasonable suspicion of a fraudulent act being committed through the subscriber's end-user equipment or using the features of the end-user equipment;

(c) The Licensee found that the subscriber used the cellular services in an unusual amount for that type of subscriber, and after the Licensee's service center contacted the subscriber in a phone call placed to the end-user equipment

72A.4[T2)] The Licensee may disconnect service to a subscriber if it has found that the end-user equipment in the subscriber's possession, through which the subscriber receives cellular services, causes interference with the provision of cellular services to other subscribers or interference with the cellular system activity, provided that the Licensee gave the subscriber notice in writing at least 21 days prior to the expected disconnection date. The notice will specify the reason for the expected disconnection and state that the subscriber is being given an

[T2)] Amendment No. 2 (due to a clerical error in the amendment, appeared as Section 71.3 instead of 72.3).
[T2)] Amendment No. 2 (due to a clerical error in the amendment, appeared as Section 71.4 instead of 72.4).

opportunity, within an amount of time to be set in the notice, to repair the end-user equipment in such manner as to prevent said interference.

72A.[T48)] Discontinuation of Service to a Dormant Subscriber

72A.1 If the Licensee wishes to discontinue service to a dormant subscriber, it must give the dormant subscriber prior notice of such intention, in the manner set out below (hereinafter in this section **"the notice"**). The time of discontinuation of the service may not be less than thirty (30) days after the date of sending of the notice.

72A.2 The Licensee will specify in the notice the telephone number in respect of which it intends to discontinue the service.

72A.3 The sending of a notice to a dormant subscriber will be done:

(a) With respect to a subscriber whose name and address are known to the Licensee, in each of the following ways:

(1) By a letter via regular post;

(2) By two SMS messages to be sent to the dormant subscriber at a difference of at least two weeks between the messages.

(b) With respect to a subscriber whose name and address are not known to the Licensee – by four SMS messages to be sent at a difference of at least one week between the messages.

(c) Notwithstanding that stated in Subsections (a)(2) and (b), if the subscriber's end-user equipment does not support the receipt of SMS messages, the Licensee will send the subscriber voice messages instead of SMS messages, insofar as the subscriber's end-user equipment supports the receipt of voice messages.

72A.4 The Licensee may not discontinue service to a dormant subscriber to whom a notice was sent, where the dormant subscriber has notified the Licensee that he does not wish the service to be discontinued. The subscriber may deliver such a message via the telephone or in writing, including by fax or by email.

Notwithstanding the aforesaid, the Licensee may discontinue service to a dormant subscriber who has notified it that he does not wish the service to be discontinued, after the subscriber was sent at least two notices, as stated in Section 72A.3 and 72A.5, and where in the second notice the Licensee has notified the subscriber that if within one year from the date of the second notice the subscriber does not make use of the cellular service, the subscription to the service will be discontinued, without delivery of further notice to the subscriber.

[T48)] Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).

72A.5 The Licensee may not send the subscriber further notice concerning its wish to discontinue the service after one year has passed from the date on which the subscriber was sent the previous notice in that regard.

72A.6 The Licensee will keep the telephone number of a dormant subscriber to whom service was discontinued, during at least three months from the date of discontinuation of the service, before the number is returned to the pool of telephone numbers of the Licensee itself or to another cellular licensee who originally allocated the number to the dormant subscriber. If during this period a written request is received from the subscriber to renew the service, the Licensee will renew the service upon the same terms as those that applied prior to the discontinuation of the service, free of charge.

72A.7 Where service was discontinued to a dormant prepaid subscriber who has a balance of the payment remaining to his credit, the Licensee will refund the appropriate balance within 30 days after receiving a written request from the subscriber who has proven that he is the owner of the line to which the service was discontinued, provided such request is received by the Licensee not later than six months after the date of discontinuation of the service.

73. Disconnection of Service Due to Maintenance Operations

73.1 The Licensee may temporarily disconnect or restrict services that it is obligated to provide (hereinafter – disconnection due to maintenance), if the need to carry out vital cellular system maintenance or setup operations necessitates this, provided the following are fulfilled:

(A) The duration of the disconnection due to maintenance does not exceed twelve (12) consecutive hours;

(B) The number of disconnections due to maintenance does not exceed two (2) during a single year;

(C) Void.[A2)]

73.2 The Director may ask the Licensee for a detailed explanation regarding the circumstances necessitating disconnection due to maintenance, and may ask the Licensee to postpone said disconnection if he came to the realization, after considering the Licensee's contentions, that a vital public interest necessitates such a postponement.

73.3 If due to the need to carry out vital maintenance or setup operations in the cellular system requires disconnection of service exceeding 12 hours, the Licensee will ask in advance for the Director's approval. The request will specify the maintenance operations required and the actions taken by the Licensee to speed up these operations and reduce, inasmuch as possible, the duration of the service disconnection.

73.4 Void. [A2)]

73.5 If disconnection or restriction of service is required urgently for the purpose of carrying out immediate, vital operations, the Licensee will notify the Director forthwith, including by phone, cable or fax, regarding the urgent disconnection or restriction. The Licensee will notify its subscribers about the aforesaid urgent disconnection or restriction, as early as possible, including via the public address system operating through the cellular system, insofar as this is possible, as well as through the public media.

73.6 Notwithstanding that stated in Sections 73.1 and 73.4, the Licensee does not have to notify the Director or the subscribers about disconnection due to maintenance, when the following are fulfilled:

(A) The duration of the disconnection due to maintenance does not exceed half an hour;

(B) Disconnection due to maintenance is being done between 24:00 Saturday night and 05:00 Sunday morning the following day.

Such a disconnection will not be counted in the number of disconnections as required under Section 73.1(B).

CHAPTER F – PAYMENT FOR SERVICES[A8)]

Part A – General

73A. Definitions

In this chapter –

"Licensee"	-	Anyone to whom the Minister has granted, in accordance with the Law, a general or special license;
"Airtime"	-	Duration of the time in which a subscriber receives cellular services, whether the connection is initiated by the subscriber or by someone else;
"Airtime unit"[A31A31)]	-	Time unit of 12 seconds at the most, but starting from Thursday, 1 January 2009, a time unit of 1 second.
"Package of services"	-	Several services sold to a subscriber as a package, for which a rate has been set as specified in section 75.2.
"Public telecommunications network"	-	Including an international telecommunications system.
"Payment for completion of a call"	-	Payment made by the initiator of a call which began on end-user equipment connected to one public telecommunications network and ended on another public telecommunications network, or on end-user equipment connected to such a public telecommunications network, for completing the call on the other public telecommunications network.

74. Payment Categories

The Licensee may collect from its subscribers payments for Cellular services, as follows:

(a) A onetime installation fee for connecting mobile or portable end-user equipment held by the subscriber to the Cellular system, including issuance of a smart (SIM) card to the subscriber, or a onetime registration fee (hereinafter – connection fee);

(b) A fixed payment;

(c) Payment for airtime as specified in section 75A;

(d) Payment for completion of a call as specified in section 75A;

(e) Payment for basic telephone services, related services and value added services, detailed in the First Schedule to the License;

Part B – Setting and Publication of Rates

75. Setting the Rates and Their Amount

75.1 The Licensee shall fix a rate for every service and package of services provided by it to its subscribers, and it may determine the manner of linkage of the rate to the index. The Licensee shall notify the Director of the amount of each rate, before the rate comes into effect.

75.2 The Licensee may designate packages of services according to types of services included in the package or time periods or by any other method. The Licensee may set a separate rate for each of the services included in the package or set a general rate for the package.

75.3 The Licensee shall offer each package of services at equal terms and at a uniform rate according to categories of subscribers; For purposes of this section, "category of subscribers" – [A16]a group of subscribers whose attributes provide reasonable justification for distinguishing it from another group.

75.4 The Licensee shall allow any subscriber, without discrimination, to switch from one package of services to another that is being offered by it at the time. The Licensee shall include such a provision in the contract with its subscribers. In the framework of this provision it may set times when it is permissible to make such a switch and it may set conditions, including payment terms, for implementing the switch.

75.5[T49] If the Licensee contracts with the subscriber in regard to a certain service or package of services, and the contract includes a commitment as defined in Section 56A.1 (**"commitment period"**), the following provisions will apply, with the exception of a business subscriber:

(a) The terms of the contract, excluding the contract rates, will be final, known and fixed in advance for the entire commitment period.

(b) The rate for each service will be fixed on the date of the contract and will be uniform and specified in shekels for the entire commitment period.

For purposes of this section, **"uniform"** – any rate before VAT which the subscriber is required to pay, as determined on the date of the contract, may not be increased during the commitment period.

Notwithstanding the aforesaid, the Licensee may provide its subscriber services at lower rates than those fixed in advance in the contract, during a limited time period, to all the subscribers or to a certain type of subscriber.

(c) The Licensee will include provisions as stated above in the contract with the subscriber.

[T49] Amendment No. 49 (Inception: This amendment will come into force on December 31, 2008).

75.6 The Licensee may not condition a contract with a subscriber or a subscriber's switch from one package of service to another on the purchase of value added services or end-user equipment from the Licensee.

75.7 A package of services in which a payment in installments is set for end-user equipment or for one of the services, shall include also a payment arrangement in the event that the subscriber wishes to be released from that package or to switch from that package to another package of services, according to the outstanding balance of the payments due from the subscriber or according to the remainder of the commitment period.

75.8 (a) The Licensee may not collect from a subscriber payment for a call when the call was not initiated by the subscriber (hereinafter – uninitiated call).

(b) Notwithstanding that stated in subsection (a), the Licensee may collect from a subscriber payment for an uninitiated call in the following cases:

(1) Call transferred to the subscriber by means of a roaming service;

(2) Collect call to which the subscriber has given his agreement;

(3) Call created by dialing a service number containing the access code 1-800, that was allocated to the subscriber under an agreement with him;

(4) The subscriber's share in a call created by dialing a service number containing the access code 1-700 (split debit), that was allocated to the subscriber under an agreement with him.

75.9[A18) Inception]

(a) The Licensee may collect from a subscriber who initiates a call by means of access code 1-800, whose destination is on another licensee's network, a lower rate than the one applying to the subscriber for a call not initiated through such an access code, provided it does not exceed the amount set by agreement between the Licensee and the other licensee, and in the absence of such agreement – does not exceed the amount set by the Minister[2].

(b) That stated in subsection (a) shall not apply to calls destined for 1-800 numbers with a special numbering format that were allocated to the international operators for the purpose of providing international telecommunication message services, as this term is defined in the international operator's license[A)].

75.10 The payment for airtime will be determined in the manner set out below:

Inception The inception of section 75.9 is on December 15, 2002.

[2] On November 26, 2002, the Minister issued a directive prescribing as follows: For a call originating in a cellular network and destined for a Bezeq subscriber for a 1-800 service Bezeq will transfer to the cellular licensee a sum of 22 agorot per minute (excluding VAT); Bezeq may collect this amount from the 1-800 subscriber; In addition, the cellular licensee will collect from its subscriber, who initiated the call, a sum not exceeding 22 agorot per minute (excluding VAT).

A) Simultaneous two-directional voice transfer and simultaneous transfer of fax messages, in an international telecommunications system.

(a) The payment for airtime will be determined according to an airtime unit[A31)]; For the purpose of calculating the payment, a part of an airtime unit shall be deemed the same as a whole airtime unit.

(b) Void[A46)].

(c) The duration of the call for payment purposes is from the moment the connection is established between the subscriber who initiated the connection (hereinafter – the calling subscriber) and the subscriber receiving the call, until the moment when the call is terminated, which is the moment when an instruction to terminate the connection is received from the calling subscriber or from the subscriber receiving the call; The duration of the connection setup time, until the moment the connection is established, and the duration of the disconnection time, from the moment the instruction to terminate the connection is received until it is actually implemented, is not included in the count of the duration of the call.

In this regard, subscriber receiving the call – including a voice mailbox.

"Voice mailbox" – an installation or device forming part of the cellular system, designed to enable the calling subscriber to leave a voice message for the called subscriber[A40)].

(d) [A40)] Regarding a call that is transferred to a voice mailbox, the Licensee shall play to the calling subscriber an introductory voice message, lasting at least 2 seconds (in this subsection – **"message"**), and will enable the calling subscriber, at his option, to disconnect the call without any debit, in the course of the message, or within a reasonable time being not less than one second after the end of the message (**"reasonable time"**). In such case, the moment of establishing the connection with the subscriber receiving the call, within the meaning of subsection (c) above, will be deemed to occur at the end of the reasonable time.

The wording of the message will be: "The call is being transferred to a voice mailbox," and it will be articulated clearly and at a reasonable speed. In this subsection, **"call transferred to a voice mailbox"** – excluding a call originating in an international telecommunications system.

75A. [A25)]Completion of a Call in Another Public Telecommunications Network

The payment for completion of a call to be collected by the Licensee shall not exceed the interconnection rate specified in the Telecommunications Regulations (Payments for Interconnection), 2000.

75B. [A2A25)]Completion of an SMS on Another Public Telecommunications Network

The Licensee may collect from a subscriber for the transfer of an SMS which is being transferred from end-user equipment that is connected to the network to end-user equipment that is connected to a cellular system of another cellular licensee, a payment not exceeding the payment which the Licensee collects from the subscriber for the transfer of an SMS which is transferred from end-user equipment that is connected to the network to end-user equipment that is connected to the network, plus a payment not

exceeding the rate for the transfer of an SMS specified in the Communications Regulations (Telecommunications and Transmissions) (Payments for Interconnection), 2000.

For purposes of this section –

"SMS" – telecommunications messages comprised of writing, including signs or symbols, transferred from end-user equipment that is connected to the network, to end-user equipment that is connected to the network or to a cellular system of another cellular licensee.

75C. [A27)] **Temporary Order**

Notwithstanding that stated in section 75B, for the period beginning May 9, 2004 and ending February 9, 2005[A29)], the following provisions shall apply:

(a) The Licensee may collect from a subscriber for the transfer of an SMS which is destined for end-user equipment that is connected to a cellular system of another cellular licensee (hereinafter – "inter-network SMS") a payment not exceeding the payment which the Licensee collects from the subscriber for the transfer of an SMS which is transferred from end-user equipment that is connected to the network to end-user equipment that is connected to the network, plus a payment not exceeding the rate for the transfer of an SMS specified in the Communications Regulations (Telecommunications and Transmissions) (Payments for Interconnection), 2000, less a rate of 0.7%[8];

(b) The Licensee may collect from a subscriber payment for an inter-network SMS as stated in subsection (a), even if its transfer to the called subscriber was not completed.

76. Publication of Rates

76.1 The Licensee shall provide to anyone so requesting, at the service offices and at the call centers, free of charge, full and detailed information concerning the up-to-date rates for all its services, including the payment for completion of a call; The Director may instruct the Licensee concerning the manner and format of publication of the rates.

76.2 The Licensee shall indicate in every account sent to a subscriber the package of services according to which the subscriber is being debited.

[8] The 0.7% reduction is based on a report received from some cellular operators concerning the rate of inter-network SMS messages that did not reach their destination. Section 75C was enacted as an temporary order, with the cellular operators to make the necessary adjustments in the cellular systems and in the interconnection arrangements between them to enable full implementation of section 75B of their license. To remove doubt, it is clarified that this temporary order was enacted only for a limited time, owing to difficulties that were pointed out by the cellular operators concerning the possibility of receiving information about non-completion of an SMS on another cellular network; However, beyond this, nothing may be inferred from this temporary arrangement concerning permission to collect payment for an SMS that was not transferred to its destination, and said arrangement does not detract from the Ministry's basic position according to which, in general, no payment may be collected for a telecommunications service that was not realized.

76.3 The Director may request to receive from the Licensee at any time details of the rates charged by it.

77. Void[A43)]

77A. Fraud Prevention

77A.1 The Licensee shall take suitable and reasonable steps to prevent fraud and shall maintain a control and follow-up system for verifying, to the extent possible, that the calls for which the subscriber is being debited were actually made from end-user equipment connected to the Licensee's cellular system in the subscriber's name.

77A.2 The Licensee shall disconnect the service to the subscriber's end-user equipment after receiving at the service offices the subscriber's notification that the end-user equipment was lost or stolen, or that there is a possibility that someone else is making calls through the end-user equipment without having received permission to do so; The subscriber may give such a notification by telephone or in writing, including by fax or email; Upon receipt of a telephone notification or immediately after receipt of a written notification, the Licensee shall verify its reliability and disconnect the service.

77A.3 The Licensee shall cooperate with other licensees in locating and preventing fraud.

Part C – Changes in the Rates

78.[A43)] Change in the Rates

Subject to that stated in section 75, the Licensee may change the rate that was set by it for any service or basket of services (in this section – "service"), provided:

(a) It submits to the Director a written notice giving details of the new rate, before such rate goes into effect;

(b) It gave prior written notice to every subscriber who joined the service; Notwithstanding that stated, notice regarding a reduction may be given to the subscriber up to one month after the reduction.

For purposes of this section, "change" – any change in a rate resulting in an increase or reduction in the payment before VAT which a subscriber is required to pay for the Licensee's services.

79. Start of an Increase or Reduction in a Rate

In case of an increase or reduction in any rate for cellular services according to the provisions of the license, such increase or reduction shall not apply to payments made for such a service prior to the starting date of the increase or the reduction; An increase or reduction shall apply only to cellular services provided to a subscriber after the date of the increase or reduction; This section shall not apply to a rate adjustment ordered by the Minister under section 83(A).

80. Arrears in Payment

80.1 The Licensee may debit a subscriber arrears interest, linkage differences and collection costs on payments for cellular services which were not paid by a subscriber on their stipulated payment date, in a payment notice sent to the subscriber, according to the contract between them[A33)] (hereinafter – the payment date).

80.2 Void[A43)]

80.3 The amount of the arrears interest shall not exceed the rate specified in the definition of "linkage differences and interest" in section 1 of the Adjudication of Interest and Linkage Law, 1961, plus linkage differences for the period between the stipulated payment date and the actual payment date of the specified amount.

80.4 [A33)]The Licensee may debit a subscriber collection costs on a payment for a service which it provided to the subscriber, which was not paid on the payment date (hereinafter – the amount of the debt), provided at least fourteen (14) days have elapsed from the payment date, excluding a case of nonpayment due to the bank's or the credit-card company's refusal to pay a debit for the collection of which the Licensee received an authorization; The amount of the collection costs to be collected by the Licensee shall be reasonable and in proportion to the amount of the debt and the actions which the Licensee must take in order to collect it.: In this regard, "collection costs" – including legal handling by the Licensee or someone acting on its behalf, of the collection of the amount of the debt before application is made to the courts.

Part D – Miscellaneous

81. Onetime Debit for Connection Fee

If the Licensee decides to collect a connection fee as defined in section 74(A), it may debit a subscriber a connection fee only for the connection of the subscriber for the first time to the cellular network and the provision of the cellular services, or for a connection after the termination of a service under section 71 or the termination or disconnection of a service under section 72.

82. Collection of Subscription Fee in Installments

The Licensee may collect the connection fee as stated in section 81 for connection to the cellular system in a number of installments, at the times agreed upon with the subscriber and in the amount specified in the contract.

83. Harm to Competition or to Consumers

(a) If the Minister finds that any of the Licensee's rates or any payment required to be made to or through the Licensee is contrary to the provisions of the License, the Minister shall notify the Licensee in that regard, indicating the correction that needs to be made and that if the Licensee fails to do so, the Minister will act pursuant to his power under sections 5 and 15 of the Law; The Licensee shall send the Minister a written notification setting out the corrected rate and shall act to refund the excess amount, if any, which a subscriber was debited according to the rate prior to its correction.

(b) If the Minister finds that any of the Licensee's rates or any payment required to be made to or through the Licensee is unreasonable or is liable to harm competition or the consumers, the Minister shall notify the Licensee in that regard, indicating the correction that needs to be made and that if the Licensee fails to do so, the Minister will act pursuant to his power under sections 5 and 15 of the Law; The Licensee shall send the Minister a written notification setting out the corrected rate

CHAPTER G: PAYMENTS FROM THE LICENSEE, LIABILITY, INSURANCE AND GUARANTEE

Part A – Royalties and Payments[A16)]

84. Royalties

84.1 The Licensee shall pay royalties as prescribed in the Telecommunications Regulations (Royalties), 2001, or in any other regulations replacing them (hereinafter – **"the Royalties Regulations"**).

84.2 To every payment of royalties under this section the Licensee shall attach two copies of an unaudited quarterly income report, signed by the Licensee and certified by an accountant; The report shall contain a detailed calculation of the liable income according to the Royalties Regulations, and any other particular on which the Licensee based the amount of the royalties.

84.3 Upon the submission of an annual income report audited and signed by the Licensee's accountant (hereinafter: **"the audited report"**), the Licensee shall submit a report, prepared by quarters, setting out the adjustment between the income on which it paid royalties, and the income appearing in the audited report (hereinafter – **"the adjustment report"**).

84.4 If it becomes apparent that the amount of the royalties to be paid by the Licensee, according to the adjustment report, is greater than the amount paid by it for the quarter to which the audited report relates, the Licensee shall pay royalties differences, in addition to interest and linkage differences, as prescribed in the Royalties Regulations.

84.5 If it becomes apparent that the amount of the royalties paid by the Licensee is greater than the amount it was required to pay for the quarter to which the audited report relates, the Licensee shall be credited with the amount of the excess payment; The excess payments to which the Licensee is entitled shall be offset, pursuant to a written approval of the Director, from the next payment of royalties, and linkage differences and interest shall be calculated according to the last index published before the date of the offset; In this regard – interest and linkage differences, as prescribed in the Royalties Regulations.

85. Arrears in the Payment of Royalties

The Licensee shall pay linkage differences, arrears interest and collection costs, as set forth in the Royalties Regulations, on royalties that were not paid at the time stipulated therefor in the regulations.

86. Payment Method

Royalties as well as linkage differences, arrears interest and collection costs in respect thereof shall be paid to the Ministry of Communication's accountant by a bank transfer to the ministry's account.

87. Other Mandatory Payments

The royalties under this Part shall be in addition to any other fee, tax or mandatory payment which the Licensee is required to pay under any law.

Part B – Liability and Insurance

88. Definition of Scope of Insurance

In this Part, "use of the license" – setup, installation, maintenance, upkeep or operation of the cellular system, whether by the Licensee itself or through anyone acting on its behalf, including its employees, contractors, agents or representatives.

89. Licensee's Liability

89.1 The Licensee shall be liable at law for death, damage or loss to the body or property of any person, directly or indirectly resulting from or consequent on the use of the license.

89.2 When using the license, the Licensee shall take all reasonable precautions to prevent damage or loss to the body or property of any person, and where such damage or loss was caused due to the use of the license, the Licensee shall repair the damage at its expense and compensate the aggrieved party, all subject to any law, excluding a case in respect of which the Minister granted the Licensee immunity as specified in section 90.

To avoid doubt, this section shall not impose on the Licensee liability beyond the liability in torts established in the regular law of torts.

90. Immunity from Liability

90.1 The Minister may, at the Licensee's request, grant it all or any of the immunities enumerated in Chapter I of the Law, subject to that stated in section 90.3.

90.2 The Licensee shall set out in its request the immunities which it is requesting and the reasons therefor.

90.3 If the Minister is persuaded of the necessity of granting the Licensee the immunities under Chapter I of the Law, he shall publish his decision in a notice in *Reshumot*.

91. Making an Insurance Contract

91.1 The Licensee shall make, at its expense, an insurance contract with a licensed insurer according to the terms contained in section 92; The insurance contract shall be presented to the Director at the time of the grant of the license.

91.2 The Licensee shall indemnify the State in respect of any financial liability as stated in section 89.1, for which it may be held liable towards a third party due to the use of the license; Any indemnity under this section shall be insured by the Licensee for liability insurance.

91.3 The Licensee shall insure itself, including its employees and contractors, against any financial liability as stated in section 89.1, for which it may be held liable at law owing to damage caused to the body or property of a person from the use of the license, and against any loss or damage caused to all or a part of the cellular system from the use of the license, including against third party risks.

91.4 The Licensee shall submit to the Director an opinion of a lawyer specializing in insurance, confirming that the insurance policy covers everything required in sections

91.2 and 91.3; The Licensee shall attach to the opinion a copy of the insurance contract and its attachments; Said documents shall be submitted to the Director within 7 days of the signing of the insurance contract and shall be attached to this license as Addendum G.

92. Conditions in the Insurance Contract

92.1 The insurance contract shall specify the period of insurance and shall stipulate that at the end of the period of insurance the insurance shall be extended automatically.

92.2 The Licensee shall present to the Director, once a year, the insurer's confirmation that the insurance contract is valid, there are no arrears in the Licensee's payments of the premiums and there are no pending notices concerning the cancellation, suspension, limitation, amendment or termination of the insurance contract.

92.3 The insurance contract shall stipulate that in the event the insurer wishes to cancel the insurance contract, owing to nonpayment of the premium, it must give the Director prior notice in that regard not less than 90 days before the contract is actually due to be cancelled (hereinafter in this section – cancellation notice).

92.4 If a cancellation notice has been sent as stated in section 92.3, the Licensee shall act immediately to eliminate the cause of the cancellation, or shall act immediately to obtain an alternative insurance contract as stated in section 92.6, and it shall notify the Director of the actions it took for this purpose; Where the cause of cancellation was nonpayment of the premium by the Licensee, the Director may pay the premium in the Licensee's stead, and he may exercise the bank guarantee or any part thereof to cover amounts which he expended on payment of the premium or collect them in any other manner.

92.5 If the Licensee wishes to cancel the insurance contract, it must notify the Director in that regard at least 45 days before the contract is actually due to be cancelled.

92.6 If the Licensee has agreed to the cancellation of the insurance contract by the insurer or itself wishes to cancel the insurance contract, it shall make an insurance contract with another licensed insurer, in such manner that the new insurance contract will come into effect simultaneously with the lapse of the previous contract; The new insurance contract shall be submitted for approval to the Director, together with an opinion as stated in section 91.4, 45 days before its effective date, and it shall be subject to the provisions of the sections in this Part.

93. Remedy for Breach of Conditions with Respect to Insurance

If the Licensee did not make an insurance contract, or if it becomes apparent that the insurance contract which it made was cancelled or expired, the Director may effect insurance and pay the premium in the Licensee's stead, and it may exercise the bank guarantee to cover amounts expended by it on the insurance or collect them in any other manner; All the foregoing without derogating from the authority to cancel, restrict or suspend the license owing to the Licensee's failure to effect insurance according to the terms of this license.

Part C – Guarantee to Secure Fulfillment of the Terms of the License

94. The Guarantee and Its Purpose

94.1 [A30)]The Licensee shall present to the Director an unconditional bank guarantee in favor of the State of Israel, in shekels, equivalent to ten (10) million US dollars, as security for fulfillment of the terms of the License; The guarantee is attached to this license as Addendum H to the Second Schedule.

94.2 The guarantee shall serve as security for fulfillment of the terms of the license and for compensation and indemnification of the State for any damage, payment, loss, detriment or expense caused or liable to be caused to the State – whether directly or indirectly – due to nonfulfillment of all or any of the terms of the license, fully and on time, or due to the cancellation, restriction or suspension of the license.

95. Exercise of the Guarantee

95.1 Without derogating from the general purport of section 94.2, the Director may exercise the guarantee, in whole or in part, if damage is caused due to nonfulfillment of the terms of the license, including in each of the cases set out below:

(a) The State incurred a loss of income from royalties owing to a lack of revenues from subscribers' payments, including by reason of:

(1) Failure to operate the cellular services at a time stipulated therefore in the timetable determined by the Director, or as approved by the Director;

(2) Discontinuation, suspension or restriction of services;

(3) Restriction or suspension of the license;

(b) No insurance contract was made according to sections 91-92, the premium was not paid, or the insurance contract was cancelled or expired;

(c) The Licensee is debiting its subscribers for payments contrary to that stated in section 75;

(d) The Licensee is not complying with the coverage and service quality requirements as stated in Appendix B, or the Licensee consistently stops, suspends or limits the service contrary to the provisions of the license;

(e) The Licensee does not convert the cellular system to a digital technology by the date specified in Appendix B.

(f) The Licensee consistently or willfully violates any of the provisions, terms or requirements of the license;

(g) A claim or demand was submitted against the State for payment of compensation and damages due to a violation of a condition in the license or faulty implementation of the license or due to the cancellation of the license, and where the State incurred expenses due to such claim or demand; The exercise of the

guarantee for the purpose of covering the amount of a claim as stated, shall be done only after the judgment in that claim has become absolute;

(h) Royalties according to section 74 were not paid fully and on time;

(i) The State incurred costs or damage due to the cancellation of the license;

(j) The Licensee did not complete the guarantee fees as specified in sections 96.2 and 79.2.

(k) [A16)]The Licensee did not present the license fee on the required date, as stipulated in section 40.1 of the conditions of Tender No. 1/01.

(l) [A16)]A monetary sanction was imposed on the Licensee in accordance with the law, and the required amount was not paid on time, provided no amount above the amount of the sanction is collected.

95.2 The Director may exercise the guarantee as stated in this Part also by reason of an expected violation of the terms of the license or frustration of the terms of the license that justify, at his discretion, early exercise of the guarantee.

96. Manner of Exercise of the Guarantee

96.1 The Director may exercise the guarantee, in whole or in part, up to the amount specified therein, provided it warned the Licensee that if it does not correct the act or omission the subject of the warning within the period specified in the warning – the guarantee will be exercised, in whole or in part.

96.2 If the entire amount of the guarantee or a part thereof was exercised, the Licensee shall provide a new guarantee or complete the balance up to the original amount of the guarantee immediately upon the Director's demand; Failure to complete the amount of the guarantee as stated shall constitute a material breach of the terms of the license, and the Director may – without derogating from his authority to cancel, restrict or suspend the license – exercise any remaining balance of the guarantee.

96.3 The Licensee may appeal a decision of the Director to exercise the guarantee, in whole or in part, before the Minister within 15 days of being notified of the Director's decision.

97. Term of Validity of the Guarantee

97.1 The guarantee shall be valid throughout the term of validity of the license and for [A16)]two years after the end of the term of the license, or until the Licensee satisfies all its obligations under the license to the Director's satisfaction – according to the later of these two dates.

97.2 If the Director determines that the Licensee did not satisfy all its obligations under the license, within 60 days before the expiry of the term of the guarantee, he may require the Licensee to extend the term of the guarantee or to present a new guarantee, within the period specified by the Director; The new guarantee shall be valid up to the date specified by the Director or until the Licensee satisfies, to the Director's satisfaction, all its obligations under the licenses – according to the later of these two dates; If the

Licensee fails to present a new guarantee as stated, the Director may exercise the guarantee.

97.3 Where the Director confirmed receipt of a guarantee the validity of which may be extended from time to time upon his demand, the Licensee shall extend the validity of the guarantee before the expected end of its term, for a year, unless the Director exempted it from this obligation; If the Director did not grant an exemption from the obligation to extend the validity of the guarantee, and the validity of the guarantee was not extended at the specified time, the Director may exercise the guarantee in its entirety without advance warning.

98. Preservation of Remedies

98.1 Exercise of the guarantee, in whole or in part, does not derogate from the authority to cancel, restrict or suspend the license.

98.2 The amount of the guarantee shall not serve to limit the scope of the Licensee's liability towards the State for payment of the full damages caused to it, where the Licensee is obligated to make such payment under the license or by law.

98.3 The exercise of the guarantee, in whole or in part, shall not derogate from the Director's right to demand from the Licensee in any other manner payment for damages which it is obligated to cover under this license or to exercise other reliefs that are available to him by law.

CHAPTER EIGHT – SUPERVISION AND REPORTING

Part A: Supervision of Licensee's Activities

99. Supervisory Power

The Director or anyone authorized by him for this purpose may supervise the Licensee's activities with respect to the implementation of the license and compliance with the provisions of the Law, the Ordinance and the Regulations pursuant thereto.

100. Preservation of Confidentiality

The Director and anyone engaging on his behalf in supervising the Licensee shall not disclose any information or document coming into their possession by virtue of their function, to a person who is not authorized to receive such information or document, unless it was already published in public or disclosure is necessary for the performance of their function under this license or by law.

101. Entry to Premises and Inspection of Documents

For the purpose of exercising the supervision as stated in this Part, the Director may:

(a) Enter at any reasonable time any facility or office used by the Licensee to provide its services under this license.

(b) Carry out measurements and tests on the cellular system, and he may inspect any record, document, plan, account book, ledger or data base, whether regular or computerized, of the Licensee or of anyone employed by the Licensee in subjects over which the Director has supervisory power as stated; The Director may inspect them and copy them in any manner he deems fit.

102. Cooperation

The Licensee shall cooperate with the Director or with anyone authorized by him with respect to the exercise of supervision over its activities as stated, and without derogating from the general purport of the aforesaid, it shall allow them to carry out that stated in sections 100 and 101 and shall furnish to them, upon their demand, any information in its possession or control that is required by them for the exercise of the supervision.

Part B: Reporting and Correction of Defects

103.[A43)] Duty of Submission of Reports

103.1 The Licensee shall submit to the Director the reports specified in this license, in the format and at the times stipulated in this part.

103.2 Every report shall reflect the correct facts relating to the subject thereof, updated for the period of the report.

103.3 A report shall be submitted in two (2) copies, printed and prepared in an easily readable form, bearing the date of its preparation and signed by the Licensee or whoever it authorized for this purpose; The report shall be submitted in a format as directed by the Director, including with respect to its contents, structure and manner of submission.

103.4 The Director may require the Licensee to prepare anew or to complete a report which it submitted, if he found it lacking in necessary details or details which, in the Director's opinion, should have been included by the Licensee in the report.

104.[A43)] Types of Reports

The Licensee shall submit to the Director, at his request and at least once a year, at the end of the calendar year and not later than ninety (90) days thereafter, annual reports describing its activity in the period from January to December of the past year:

(a) Financial statement audited and signed by an accountant;

(b) Subscribers report, including the following data:

(1) Number of subscribers broken down according to business and private subscribers and according to post-paid and pre-paid;

(2) Amount of income broken down according to subsection (1), with each type of income from interconnection appearing separately, and broken down as well according to airtime and added-value services.

(c) Report on the use of frequencies according to Chapter D Part C;

(d) Addendum A – "Particulars of Licensee" updated as of the beginning of January, as detailed in section 20.1.

104.2 The Licensee shall submit to the Director once a quarter, not later than a month after the end of the quarter, the following reports:

(a) Unaudited quarterly financial statement signed by an accountant;

(b) Unaudited quarterly income report signed by an accountant, giving details of income on which royalties are payable;

(c) Traffic report – in a format as directed by the Director.

104.3 The Licensee shall submit a report on any special occurrence, as set out in regulation 8 of the Control Regulations.

104.4 The Licensee shall submit to the Director the following report, at his request:

(a) Report concerning development works of the network;

(b) Malfunctions report – containing a brief description and discussion of the malfunctions that occurred in the network, the number of malfunctions and the cumulative duration of malfunctions of each type, an analysis of the malfunctions and the steps taken to repair them;

(c) Service quality report – Analysis of the Licensee's compliance with the requirements of sections 49 to 51 and Addendum E – Level of Services for Subscribers, during the period of the report;

(d) Complaints report – detailing the written service complaints that were submitted by subscribers, including the subject of the complaints, the dates on which they were received, the written response given, the manner in which they were dealt with and details of the activity of the Public Ombudsman;

(e) List of the Licensee's rates;

(f) Updated engineering program;

(g) Encumbrances report – The Licensee must report to the Director immediately any case of imposition of an attachment or encumbrance on any of the Licensee's assets or any case of an encumbrance on means of control in the Licensee, any realization of such encumbrances or voidance of any right of the Licensee in an asset; The Licensee must also submit to the Director, at his request, a report detailing all such encumbrances.

(h) Report on number of subscribers, income and minutes broken down according to private and business subscribers, and within each category – broken down according to subscribers for programs priced according to an "inclusive standard rate" and subscribers for programs priced separately for payment in respect of "airtime" and interconnection, in a format as directed by the Director;

(i) Nuisance subscribers report as detailed in section 65A.9;

(j) Any other data required for performance of control on the Licensee's activities, and any information required by the Ministry for regulating the telecommunications sector.

104.5 The Director may add or remove periodical, annual or quarterly reports, and he may request the Licensee to submit special reports as directed by him.

105.[A43)] Notice Concerning a Defect

105.1 Where the Director finds defects or deficiencies in the Licensee's activities, he shall notify the Licensee thereof in writing.

105.2 If the Licensee received a notification as stated, it shall submit to the Director, within thirty (30) days from receipt of the notification, its written response detailing the measures taken by it to correct the defects indicated therein.

106.[A43)] Void.

CHAPTER I – MISCELLANEOUS

107. The License as an Exhaustive Document

107.1 The Licensee's rights, obligations and powers with respect to the setup, maintenance and operation of the cellular system and the provision of services by means thereof, originate in and derive exclusively from and according to this license.

107.2 Void.[A2)]

108. Keeping the License Document and Returning the License

108.1 The Licensee shall keep the license documents in its office and shall allow the public to inspect their true and up-to-date copies; In case the terms of the license are modified, the Licensee shall attach the modification wording to said license documents.

108.2 [A16)]If the license and its documents are made available for public inspection, the public shall not be allowed to inspect the following documents, which are included in the Second Schedule to the License:

(a) Appendix A – Details of the Licensee;
(b) Appendix B – Engineering program;
(c) Void[A43)];
(d) Appendix G – Insurance contract;
(e) Appendix H – Bank guarantee;
(f) Appendix I – Special services for the security forces;
(g) Appendix L – Special services for the security forces – security addendum (confidential);
(h) Appendix M – Security directives;
(i) Appendix N – Letters of undertaking.

108.3 The license documents are the property of the State and are entrusted to the Licensee for the term of validity of the license; Upon the cancellation or expiry of the license, the Licensee shall return the license with all its documents to the Director.

108.4 [A16)]The Licensee shall allow the public to inspect the license documents via the Internet; The Licensee may do this also by way of referral to the website of the Ministry of Communications, as long as the Ministry publishes the license on its website.

108.5 [A16)]The Ministry may publish the license, excluding the appendices indicated in section 108.2, at the time and in the manner deemed fit by it.

109. Postponement of Deadline

109.1 A duty imposed on the Licensee in this license, for which a performance deadline has been set, must be performed by the Licensee within the deadline.

109.2 [A2)]The Director, at the Licensee's request, may postpone a deadline set as stated, if it deems it impossible to perform the duty within such deadline for reasons of force majeure.

110. Reserving of Liability

Any approval or supervisory authority granted under this license to the Minister or to the Director, including the exercise of such authority, shall not impose on them any liability which is imposed by this license on the Licensee, and shall not derogate or detract from or void or diminish the Licensee's liability as stated.

111. Notices

111.1 A notice concerning this license or its implementation shall be in writing and shall be delivered by hand or dispatched by registered post with confirmation of delivery; A notice sent by registered post as stated shall be presumed to have reached its destination by the end of 48 hours from the time of its delivery for dispatch.

111.2 Any notice of the Licensee to the Minister shall be delivered or sent through the Director.

111.3 The Licensee's address for receipt of notices under this section is: 10 Hagavish St., Poleg Industrial Area, Netanya 42140; The Licensee shall notify the Director immediately of any changes in this address.

First Schedule
List of Services and Measures for Quality of Service[A16)]

1. General

1.1. This Schedule includes the list of services the Licensee will provide, under the conditions set out in Section B of Chapter E – **"Level of Services for Subscribers".**

1.2. The services will be provided in each of the technologies operated by the Licensee, unless otherwise noted in the License or in the Schedule to the License.

1.3. Wherever the term: "**Support in Various Languages"** is used, this denotes support in at least these four languages: Hebrew, Arabic, English and Russian.

1.4.[A43)] The Licensee must include in the service dossier at least the following details:

a. **Name of the service:** Name of the service, including its trade name and a general description of the service.

b. **Detailed description of the service: A**mong other things –
Is it a new service / expansion of an existing service / combination of services / is there any need for a pretrial;
Manner of operating the service;
Date on which provision of the service is to commence;
Availability and measures for quality of service;
Support centers;
Price of the service;
Target audience of the service;
How to order the service;
Process of connecting to the service;
Implications or effects of this service on other services.

c. **Engineering description:**
Description and block diagram of the system;
End-user equipment – dedicated equipment for receiving the service.

d. **Miscellaneous:**
The need for numbering;
Required coordination with other licensees or entities.

2. List of Services

2.1. Basic Telephone Services

No.	Name of Service	Description of Service	Date provided	Measures for quality of service	Remarks
1.	**Cellular Calls**	Telephone calls to and from Licensee's subscribers to any telephone or other appropriate end user equipment in another public telecommunications network in Israel or throughout the world	Existing service	98% availability	
2.	**Emergency Calls**	Free dialing to emergency services determined by the Director (for example: police, ambulance, fire dept., etc). Caller will be referred to the emergency hotline according to the services provider's definition with reference to the subscriber's location.	Existing service	98% availability	According to the Director's rules

2.2. Related Services

No.	Name of Service	Description of Service	Date provided	Measures for quality of service	Remarks
1.	**Call Waiting**	Subscriber may receive incoming calls while on another call. Subscriber may cancel service at will.	Existing service	99.9% availability	
2.	**Selective Call Waiting**	Only calls from a list of numbers defined by the subscriber will activate call waiting alert	Future service	99.9% availability	
3.	**Call Forwarding**	Diversion of incoming calls to a phone number at the subscriber's choice: Always	Existing service	99.9% availability	

		When busy When call is not answered When subscriber unavailable			
4.	**Selective Call Forwarding**	Diversion of incoming calls according to a list of numbers predefined by the subscriber, to another destination at the subscriber's choice: • Always • When call is not answered • When busy	Future Service	99.9% availability	
5.	**Call Transfer**	Subscriber may transfer call to another telephone number	Future Service	99.9% availability	
6.	**Hunting Group**	Determining a leading number for a subscriber's group of numbers: dialing the leading number will refer the call to a free number in the group.	Future Service	99.9% availability	
7.	**Caller ID**	Caller's number will appear on the screen	Existing Service	99.9% availability	Depends on caller's end device
8.	**Calling ID Restriction**	Allows blocking subscriber's number from appearing on call receiver's screen. Block may be permanent or one-time.	Existing Service	99.9% availability	
9.	**Caller Name Announcement**	Option of identification of caller by voice signature	Existing Service	99.9% availability	
10.	**Conference Call**	Establishing a call for a number of subscribers simultaneously	Existing Service	98% availability	
11.	**Closed User Group**	A group of phone numbers than may establish a call only among themselves	Existing Service	98% availability	GSM network only
12.	**Voice Mail**	Storing messages of callers to the subscriber in a personal box and allowing extraction of such	Existing Service	99% availability	

13.	**Advanced Voice Mail**	Voice mail system as described in paragraph 12 above, with added "smart" element, including visual or audio indication of messages waiting, transfer of messages to other platforms and receiving messages from such platforms.	Existing Service	98% availability	
14.	**Voice Mail Notification**	When message received in voice mail box, the mail box will dial or send message to destinations defined by subscriber	Future Service	99.9% availability	
15.	**Voice Activated Service**	Allows operation of telephone and basic services, related services and value added services by voice	Partialy existing, Future Service expansion.	70% chance of correct identification in regions where signal strength is better than 85dbm	
16.	**Call Tracking**	Allows subscriber to send the applicant an indication, while talking, for purposes of later identification of source of call.	Future Service	99.9% availability	Subject to law
17.	**Virtual Private Network (VPN)**	Allows short dialing according to a private numbering program	Existing Service	99.9% availability	For subscribers according to relevant types. Currently provided to business sector.
18.	**Centrex**	Allows maintaining a private network while using network resources	Future Service		
19.	**Facsimile Services**	Allows receiving, storing and extracting facsimile messages via phone	Existing Service	99.9% availability	
20.	**Roaming**	Allows receiving, extracting and blocking messages abroad	Existing Service	99.9% availability	Subject to availability of foreign operator. In

					GSM network in 3 months o launching of the network.
21.	**GPRS Roaming**	Allows using certain communications data services while using roaming services	Future Service	99.9% availability	Subject to operator availabilit
22.	**Toll Free Call (1-800)**	Free call to caller. Subscriber – call receiver – is charged for cost of call.	Future Service		According to numbering program and Director's rules
23.	**Split Charge (1-700)**	Splits cost of call between call maker and subscriber receiver	Future Service		According to numbering program and Director's rules
24.	**Call Screening**	Defining a list of phone numbers subscriber will receive calls from. Call from other numbers will be referred to another destination.	Existing Service	99.9% availability	
25.	**Talk Two**	One number for two end user equipment units.	Existing Service	99% availability	
26.	**One number for two SIM cards**	cellular services for two or more telephones in one number	Future Service	99% availability	
27.	**Two numbers for one SIM card**	Defining two telephone numbers for the same SIM card	Future Service	99% availability	
28.	**Change of number announcement**	A caller to a subscriber will receive an announcement of the subscriber's new number, and will be given the option of directing the call to the new number.	Existing Service	99.9% availability	GSM network only
29.	**Wake-up Service**	Allows subscriber to request the system call him at an hour defined.	Future Service	Precision of service approx. 5	

				minutes. 99.9% availability	
30.	**Camp on busy line**	Call automatically put through to busy number when number frees up.	Future Service	99.9% availability	
31.	**Personal Number Service**	Allows subscriber to define calls to a certain number be forwarded to various destinations according to parameters set by subscriber.	Future Service	99.9% availability	
32.	**Collect Call**	Cost of call to be paid by subscriber receiver, after confirmation.	Existing Service	99.9% availability	Between licensed subscribers only
33.	**Message Distribution**	Distribution of messages to a list of addressees, using various platforms	Future Service	99.9% availability	
34.	**Hot Billing**	Provides updated information to subscriber regarding his bill with the applicant via various platforms	Future Service	99% availability	
35.	**Over the Air Services (OTA)**	Update of data and applications on SIM card via SMS by the applicant. Running applications from SIM card will be performed by subscriber, using end device.	Future Service	99% availability	
36.	**Account Code Billing**	Splitting charge for one phone number into separate accounts. Subscriber's instructions regarding the account to be billed will be performed by punching a code at the beginning or during a call.	Future Service	99% availability	
37.	**Star Services**	Allows establishing a connection by dialing a short access code according to applicant's internal numbering program.	Existing Service	99.9% availability	
38.	**Short Messages**	Allow receiving and	Existing	99%	Depends on end user

	Service (SMS)	sending written messages via phone	Service	availability	equipment
39.	**Circuit Switch Data (CSD)/High speed circuit switch data (HSCSD)**	Access to data service using a dial-up modem on phone or independent dial modem	Existing Service	98% availability	Depends on end user equipment
40.	**Data communications in Packet Switch**	Subscriber connection via phone or independent modem to TCP/UDP/IP communications for broadcastung using packet switch	Existing Service	98% availability on best effort basis	Depends on end user equipment
41.	**Discontinuation of Service**	Discontinuation of service upon subscriber's request	Existing Service	Will be performed no later than the next business day after subscriber's request	
42.	**POC (Push to Talk Over Cellular)**	Call made by pressing a button on cellular end user equipment Call may be private (between subscriber and subscriber) or group on data communications network	Service Exists (just started)	According to service file	According to temp. provision

Temporary Provision The Licensee will allow operation of Push to Talk Over Cellular services (hereinafter: the Service) to any subscriber who is a legal entity (individual or corporation), provided the number of users (number of cellular end user equipment units permitted use of this service, hereinafter – end user equipments) in the possession of such subscriber does not exceed 20 during the first year starting on the date service begins. Notwithstanding the aforesaid, should there be any considerable changes in the cellular sector influencing provision of such service, the Ministry will consider a shorter period.

Application This service will not begin before Sunday, the 29th day of Tamuz, 5764 (July 18, 2004)

*** availability of service is the percentage of time the service is available, not including availability of basic services.**

2.3. Value Added Services

No.	Name of Service	Description of Service	Date provided	Measures for quality of service	Remarks
1.	**Speaking Clock**	Notice of time	Future Service	99.9% availability	
2.	**Directory Assistance**	Allows receiving information on phone numbers and automatic establishment of calling number so given.	Future service	99.9% availability	
3.	**Connectivity to Information and Entertainment Services**	Allows subscriber to connect to information, entertainment, applications and content services, whether interactive or noniteractive, whether by download, by upload, or by various means of access.	Existing service	99.9% availability	Depends on end user equipment. Subject to Director's rules
4.	**Access to Internet Provider Services**	Allows subscriber access to internet provider.	Future Service		
5.	**Location Based Information & Tracking**	Receiving and sending information depending on location of phone, subject to law.	Future Service		
6.	**M-Commerce**	Connection via end user equipment for performing transactions	Existing Service		Depends on end user equipment. Subject to Director's rules
7.	**Unified Messaging**	Allows subscriber to receive and send voice messages, speaking messages, faxes, SMS, E-mail messages, application messages and multimedia files, to and from unified cell, allowing the	Future Service	99.9% availability	Depends on end device

		convertion of the data received from one format to another, as well as access to data from various means of access.			
8.	**Telemetry Command and Control**	Use of phone or cellular modem for receiving indication and sending orders concerning various device operation (for example: alarm systems, inventory systems, traffic lights, controllers, etc.)	Existing Service	99.9% availability	
9.	**Sponsored Call**	Connection during which subscriber will be exposed to commercial information and advertisements	Future Service		Subject to law
10.	**Video Conference**	Allows visual and audio communication between a number of users.	Future Service		Depends on end device
11.	**Instant Messaging**	Message transfer service between "community" participants, organizations, groups of friends, groups of people with same interests. Subscriber notifies he is on network and ready to receive messages. Service notifies subscriber members of group who are in geographic proximity.	Future Service		
12.	**Surf & Talk**	Allows subscriber to receive an indication of call waiting and reply while connected to internet	Existing Service	99% availability	Depends on end user equipment. GSM network only
13.	**Personal Information Management**	Access and synchronization via end user equipment to personal data base.	Existing Service		Depends on end user equipment.

- **availability of service is the percentage of time the service is available, not including availability of basic services.**

Second Schedule – List of Appendices

Appendix A	Particulars of Licensee – not available to public;
Appendix B[A16]	Engineering Plan - not available to public;
Appendix C	Maintenance Scheme - not available to public;
Appendix D	Uniform Engagement Agreement – not attached;
Appendix E[A16]	Level of Subscriber Services;
Appendix F[A8]	Void;
Appendix G	Insurance Contract - not available to public;
Appendix H[A16]	Bank Guarantee - not available to public;
Appendix I[t3t5]	Special Services for security forces - not available to public;
Appendix J[A6]	Access to International Communications Services;
Appendix K[A7]	Discontinuation of Services for cellular end user equipments of IS-54 type;
Appendix L[A12]	Special Services for security forces - not available to public;
Appendix M[A12]	Security Instructions - not available to public;
Appendix N[A16]	Letters of Undertaking - not available to public;
Appendix O[A24]	Erotic Services

[A3] Amendment no.3
[A5] Amendment no. 5

Appendix D – Uniform Engagement Agreement – Not Attached

Not Attached

Appendix E

Appendix E – Minimum Requirements and Level of Subscriber Services[A16)]

1. System Performance

1.1. The system and its services will fulfill performances, qualities and measures defined in the Engineering Plan – Appendix B.

1.2. The system performance and services will not fall, in any event, from the following minimum requirements:

1.2.1. **Digital Technology:** the system and the services under the extension of the license will be operated using digital technologies, according to relevant international standards.

1.2.2. **Service Coverage:**
Subject to the provisions of section 60.5 of the license, all services will be provided in the entire coverage area of the system, keeping up minimum requirements in the matter of quality of service, for twenty four (24) months from the date on which the service for pay commences.

1.2.3. **Quality of Service**:

(A) In this section:

(1) "**Blocked Calls"**: calls that cannot be established or messages that cannot be sent immediately upon entering the order to connect because of non-availability of cellular system resources or resources for connection between the cellular system and other systems;

(2) "**Dropped Calls**" – calls stopped not by the initiative of the subscriber caller/connector or that of the receiving subscriber;

(B) Quality of service in cellular system will not be less than the following:

(1) the amount of blocked calls during hours of maximum use will not exceed two percent (2%);

(2) The amount of dropped calls during hours of maximum use will not exceed two percent (2%);

(C) The system will uphold the requirements set out in sub-sections (A) and (B) ninety-nine percent (99%) of the time during maximum use hours;

(D) Subject to the provisions of section 60.5 of the license, the system will reach the level of requirements set out above by no later than twenty four (24) months from the date of start of provision of such services for pay; from that time, said quality of service will be upheld in all the system's coverage areas;

(E) The number of blocked and dropped calls will be measured as follows:

(1) measure will relate to the time span of one hour;
(2) the maximum use hour to which the measure will refer will be the busiest hour of the system, on the day the measure is taken;
(3) The measure will be taken at the maximum use hours on each of five (5) consecutive work days as stated;
(4) The final number indicating the likelihood of blocked and dropped calls will refer to the average of the five (5) measured over the five (5) said consecutive work days, and for each type of service provided by the system;

(F) Measurement and calculation will be performed for each cell separately, for each switch separately, and for the entire system; notwithstanding the aforesaid, at the written request of the Licensee, the Director may allow exceptions to the provisions of section 1.2.3, after having been satisfied that there is a true difficulty in performing the measure and calculations as stated, provided an alternative measuring and calculation system is proposed.

2. **Customer and Subscriber Services Quality Measures**

2.1. Services for provision of information to customers and subscribers: will be given by referral to call centers, at service centers, at the internet site, by e- mail, by telephone and by facsimile.

2.2. Standards for accessibility and provision of information:

(A) A call center will be available twenty four (24) hours a day, all days of the week except on Yom Kippur.

(B) The call center will be manned at least thirteen (13) hours a day Sundays through Fridays, and five (5) hours a day on Fridays and eves of holidays.

(C) The reply at the call center will be within a reasonable time. Should the Director observe that the waiting time at the call center is not reasonable, he may set measures for response time.

(D) A caller to a call center during unmanned hours will be referred to a message box to leave a message, and will receive a reply on the following day.

(E) The Licensee will operate additional channel allowing subscribers to contact it for provision of information and for queries, such as:
- Computerized voice system IVR;
- queries via post;
- queries via fax;
- queries via e mail.

(F) The Licensee will publish its service office address and telephone number of the call center in the following ways, among others:
- In the engagement agreement with the subscriber;
- In the bills sent to the subscriber;
- In any document sent on behalf of the Licensee to the subscriber in a matter relating to customer services;
- In telephone directories and in telephone information centers.

2.3. Bills to Subscribers

(A) Bills to subscribers will set out the relevant details for such bill, out of the following:

(1) monthly charge (fixed charge)
(2) duration of calls or air time (minutes, seconds)
(3) volume of data use (MB,kB) – if the service provided is charge by volume of data transmitted.
(4) Other charges (such as for receipt of data, SMS transmission, mobile electronic commerce).
(5) Combination of the above charge methods.

(B) Structure of the Bill

Bills will be sent in a fixed form, as follows:

(1) Following payment; the bill will serve as a receipt, including:
the amount for payment not including VAT, rate of VAT and total for payment including VAT. In this section, the identifying particulars of the Licensee will be specified, and the identifying particulars of the subscriber.

(3) The Licensee may include information regarding deals and personal notices to the subscriber.

(C) Production and delivery of bills

(1) The Licensee will produce monthly bills for its subscribers or at any other time with subscriber's consent.

(2) A subscriber wishing to disengage with the Licensee will receive a final bill on the closest date possible, and no later than two months from the date of disengagement.

(3) Subscriber bills may be obtained via post or via any other means agreed upon with the subscriber, and to the address chosen by the subscriber.

2.4. [A43)] Measures for Handling Public's Applications

(A) Level of handling a written complaint – The response times for complaints will be up to 14 workdays; the response for 5% of complaints will be within a month.

(B) Measures for quality of service of the service centers –
- 90% of applications will be handled directly by the service representatives, up to completion.
- Not more than 10% of applications, some due to escalation of complaints, will be referred to more senior levels.

(C) Applications clarified by the senior level – In any case where the Public Ombudsman's reply to a complaint does not satisfy the applicant, the application will be passed on to the managerial level, which will examine the it again and reply directly to the applicant. In any event, the applicant will receive a response within 30 days from the day of his application.

Appendix J

Appendix J –Accessibility to International Telecommunications Services [A6)]

1. Definitions

1.1 In this document, the following words and terms will have the definitions noted at their sides, unless otherwise deriving from the language or context:

Bezeq International -	The Bezeq International Company Ltd. ;
Barak -	Barak I.T.C. (1995) Company for International Telecommunications Services;
Chance caller -	A Licensee subscriber, calling abroad using an international operator, using a three digit dialing code, as set out in section 2;
Subscriber number (or telephone number) -	A group of numbers in a certain order, including area code, the dialing of which should create a telecommunication's connection between the reading subscriber's end user equipment and the reader subscriber's end user equipment; a reader subscriber number may be a subscriber number of a number to a call answering center of a subscriber or a number to a call answering center of a licensee[2]
International operator -	Anyone providing international telecommunications services to the public in Israel under a general license from the Director;
Chosen operator -	An international operator chosen by appointment, under the provisions of section 4[3]
Access code -	A group of numbers in a certain order, the dialing of which allows access to a certain telecommunications service of a certain operator; dialing additional codes, as needed, and the subscriber number, should create a telecommunication connection to the subscriber's end user equipment[4] ; if the access code is a manned call center, the service is given via the operator.

[2] The phone number is determined by the licensee, according to rules and directives prescribed by the Director.
[3] A chosen operator may be Bezeq International, Barak or Golden Lines.
[4] for example: dialing an access code for international services, and after a country code, area code in that country and telephone number of the designated subscriber abroad

Appendix J

Short dialing code -	"00" " and "188" access code, designated to receive international telecommunications services, by direct dialing, or via an operator, as explained in section 2;
Golden Lines -	The Golden Lines International Communications Services Company;
Subscriber ascription	The technically defining action an internal operator performs in his switch so that his subscriber's calls, performed through a shortened dialing code, are channeled into the chosen operator's switch;
Outgoing ITMS calls -	Transferring a verbal message or facsimile message via an international telecommunications service, initiated by a Licensee subscriber;
Ingoing ITMS calls -	Transferring a verbal message or facsimile message via an international telecommunications service, initiated by an international caller;
International Telecommunications Services -	Telecommunications services given to the public in Israel, under license from the Director, via an international operator's international telecommunication services;
ITMS service	International telecommunications message service, that is, two-directional simultaneous transfer of talk and simultaneous transfer of facsimile messages, in an international telecommunications system.

1.2 Words and expressions in this document not defined above shall have the meaning as defined in the Law, regulations enacted by virtue thereof, in the Interpretation Law, 5741 – 1981, or as set out in the appropriate places in the Licensee's general license and in the International Operators' licenses, unless otherwise deriving from the language or context.

2. Allocation of Access Code

2.1 A Licensee will channel subscriber dialing, to the international operators' switches, for access to international telecommunications' services, using the following codes:

(A) **double-digit access code** – the '00' access code, which will serve as short access code for international telecommunications services provided by a

chosen operator; the Licensee will channel a subscriber dialing the prefix '00' to the chosen operator;

(B) **triple-digit access code** – an access code of '01X' type, which will serve as an access code for international telecommunications services provided to a chance user; the Licensee will channel any subscriber dialing the prefix '01X' code to the international operator according to the X digit; the X digit is the international operator's code, according to the following:

1. '2' – code for Golden Lines' services;
2. '3' – code for Barak services;
3. '4' – code for Bezeq International services;

(C) **'188' access code** – that will serve as a number for operator services ; any subscriber dialing '188' will be channeled by the Licensee to the chosen operator's operator services;

(D) **four-digit access code** – numbers of the '18XY' type, that will serve as an access code for various international telecommunications services of any and all international operators; any subscriber dialing '18XY' will be channeled by the Licensee to the international operator according to the X digit; the X digit is the code of the international operator under section 2.1(B); the Y digit is any number from 1 to 9 and the 0 digit; the use of the Y digit will be determined by the Director, under advisement with the international operators, in order to ensure uniformity and fair competition; each international operator will be allocated ten (10) such four digit numbers/ these numbers will be accessible for both the chosen operator's subscribers and for chance callers.

2.2 If the Licensee allows its subscriber the use of another short dial code (such as +), instead of the "00" dial code (hereinafter: a special code), all the provisions and rules applicable to the short "00" dial code will apply to the special code as well.

2.3 Dial by pre-paid program for unidentified subscribers who are not blocked for outgoing ITMS calls will be possible only using three-digit access codes of the 01X type, and four-digit access codes of the 18XY type; upon dialing a short access code or a special access code, a voice announcement will be heard referring the customer to dial via said access codes available to him.

2A. [A23] **Subscriber Access to Outgoing ITMS Calls :**

2A.1 The Licensee will allow subscribers to act as follows, with regard to outgoing ITMS calls:

(D) as an ascribed subscriber.

(E) As blocked
(F) As a chance caller only.

3. Blocking Outgoing International Calls and Removal of the Blocking

3.1 The Licensee will block outgoing ITMS calls, and may also block collect incoming ITMS calls for any subscriber requesting to block access to international services or subscribers for whom the international service for outgoing ITMS calls has been stopped or cut off, in accordance with the conditions of the License; the licensee may not block incoming ITMS calls except collect calls.

3.2 If a block for outgoing ITMS calls has been implemented at a subscriber's request, the Licensee will remove the block as follows: [A23]

(A) If the subscriber has asked to join, he will indicate his choice international operator who shall serve as his "chosen operator", by his signature on the appropriate form; notice given by means of facsimile will be deemed notice in writing given to by the subscriber in this matter.

(B) If the subscriber has asked to be a chance caller, he will notify the Licensee of such; if the notice is verbal, the Licensee will verify the requesting party's identity.

3.3 The Licensee will perform the block for ITMS or removal thereof, performed in accordance with the subscriber's request, according to the following:

(A) 70% - Within one working day of receipt of notice; requests received after 1500 hours will be deemed having been received on the following work day;

(B) 20% - within two working days of receipt of notice;

(C) the rest – within 5 working days.

3.4 The Licensee will ensure that a subscriber who has blocked his outgoing ITMS calls cannot make outgoing calls using '00' dialing code, '01X' dialing code, '188' or '18XY' dialing codes, or using any other code that may come in place thereof [A23] .

3.5 The Licensee may collect reasonable payment for performance of a block for outgoing ITMS calls or for removal of the block.

3.6 Notwithstanding that stated in section 3., the Licensee will allow all its subscribers to block outgoing ITMS calls before initiation of services for such subscriber, free of charge.

3.7 The Licensee will verify that all subscribers whose access to outgoing ITMS calls has been blocked receive appropriate voice message when dialing access codes or telephone numbers for international services.

3.8 If a subscriber who has chosen a chosen operator asks to block outgoing ITMS calls, the Licensee shall notify such to the chosen operator, within seven (7) working days of the date of performance of the block.

4. Choosing a Chosen Operator

4.1 A Licensee's subscriber may notify the international operator in writing, on a signed form approved by the Director, regarding his choice of a chosen operator through whom such wishes to receive international telecommunications services using '00' or '188' access codes; the form will including the particulars of the subscriber – first name, last name or name of corporation, ID number of ID number of the corporation, address and telephone numbers the subscriber asks to define the international operator as the chosen operator for, and the date and time when instruction regarding the appointment was given. The form will explain that any phone number may have one chosen operator only, and such will fulfill the requirements prescribed in this matter in the international operator's license[7] (hereinafter: the ascription form).

4.2 Subscribers may change the chosen operator at any time by written notice on the ascription form; for initial ascription made at the subscriber's request, the subscriber will not be asked to pay anything, however the subscriber may be charged a reasonable fee for any change in the ascription.

4.3 The chosen operator will send the Licensee notice regarding the subscriber's having chosen him as the chosen operator (hereinafter: ascription notice); ascription notice will include the subscriber's particulars - first name and last name, address and telephone numbers the subscriber asked to define the international operator as the chosen operator for, and the date and time of the ascription form on which the subscriber signed; the chosen operator will give ascription notice to the Licensee in accordance with the ascription forms signed by him; ascription notice will be given via magnetic media files, or in any other manner agreed upon between the Licensee and the international operators. If two or more ascription notices are given to the Licensee, relating to the same telephone number, the sc will act in accordance with the ascription notice with the later date and hour.

4.4 If a person has asked to become a new Licensee subscriber, he must make note, in the request to the international operator of his choice to engage with as a chosen operator; the Licensee will allow any new subscriber to choose a chosen operator for himself or to block the outgoing ITMS calls, or will allow the subscriber to receive ITMS services as a chance caller only; ascription services to a chosen operator or

[7] Attention is called to section 52.3 of the Bezeq license, and section 56.4 to the Golden Lines and Barak license.

connection as a chance caller, and blocking outgoing ITMS calls will be given to new subscribers, at the time of initial registration, free of charge [A23] .

4.5 In order to choose a chosen operator, and without derogating from the aforesaid, the Licensee will act as follows:

(A) the Licensee will allow all subscribers having a subscriber line number to choose one chosen operator will be for certain subscriber lines, and another for other subscriber lines;

(B) Void[A2A23] .

(C) the Licensee will perform ascription of a subscriber within one working day of receipt of ascription notice form the chosen operator [A2A23].

(D) The Licensee will report to the international operator regarding completion of said subscriber ascription as stated in sub-clause (C) above, including change of ascription at the time and under such plan as agreed upon between the Licensee and the international operator; the report will include particulars of the subscriber – first name, last name or name of corporation, address and telephone numbers the subscriber asked to ascribe to the international operator.

(E) [A20] The Licensee will send a daily modification file of subscriber ascription to all international operators (hereinafter: the modification file), containing the particulars of the subscribers who ascribed to the international operator or who unsubscribed on that day. The modification file will be handed over at the time and under such procedure as shall be agreed upon between the Licensee and the international operator. The file will include the particulars of the subscriber, including at least the first name, last name or name of corporation, ID number of ID number of the corporation, address and telephone numbers the subscriber asks to define the international operator as the chosen operator for. [effect]

(F) The Licensee may request that the Director allow in certain cases, all the prescription of rules and limitations on the matter of subscriber ascription, the Licensee will set out the technical or operational reasons on which such request is based; if the Director consents to the Licensee's said request, at his professional discretion, the Director will prescribe the time frame for the applicability of said rules and limitation;

(G) The Licensee will submit a written quarterly report to the Director, by the 15th of the month following the end of the quarter; the information in the report will be correct as of the last day of the calendar quarter preceding the date of the report, and will include the following:

[effect] This amendment will go into effect by no later than Thursday, the 29th of Nissan, 5763 (May 1, 2003)

(1) The number of subscribers blocked form international telecommunications services;

(2) The number of subscriber engaged for international services using short dialing codes or using special codes, for each of the international operators;

(3) [A23] The number of subscribers engaged for international services as chance dialers only.

(H) If there should be any disputes between the international operator or between the Licensee and the international operator on the matter of a subscribers choosing a chosen operator, the matter will resolved by the Director, or resolved by an independent arbitrator appointed by the Director, at his exclusive discretion.

4.6 The Licensee will channel any subscriber dialing using the '00' prefix or any other special prefix for access to international telecommunications services, or channeling a call to a Licensee's subscriber located abroad using an international operator (follow-me subscriber service) to the chosen operator.

5. Void [A23]

6. Block for short dialing code

6.1 Subject to the provisions of this appendix, the Licensee will perform a block for short dialing code for any subscriber so requesting[A23] .

6.2 The Licensee will perform the block for short dialing code as follows: the Licensee will channel the subscriber's calls using the double-digit '00' prefix and the '188' prefix to an announcer playing a recorded announcement stating the following in Hebrew, English, Arabic and Russian: "This service is blocked, for further details please dial ___ (a telephone number of the announcer under the provisions of section 6.7)[A23] .

6.3 Void [A23]

6.4 Void [A23]

6.5 Void [A23]

6.6 Void [A23]

6.7 The Licensee will operate the voice announcement 24 hours a day, including Saturdays and holidays, using such method and wording allowing a subscriber to receive an explanation regarding the ascription and overseas dialing, in Hebrew, English, Arabic and Russian; the explanation will include the following matters:

(A) Performance of ascription – the ascription process and where to call in order to request the ascription form;

(B) How one may make an international call when the subscription is blocked for short dialing codes;

(C) The option of blocking overseas dialing and the option of removing such block;

(D) Where one may call in order to find out about additional matters – telephone numbers of international operators.

7. Interconnection

7.1 The Licensee will connect its system to all international telecommunications system, directly or indirectly, according to the terms of its license, in a manner allowing provision of international telecommunications services to all subscribers through the international telecommunications services of all international operators, including outgoing and incoming ITMS calls, direct dialing, dialing through an operator ('188' service, as stated in section 2.2(A)), "Direct Israel" services, collect service (from abroad to Israel, from Israel abroad), international 1-800 service (incoming and outgoing), calling card services, from any destination abroad and to any destination abroad.

7.2 The technical, operational and commercial arrangements between the Licensee and any international operator will allow the provision of the following to all subscribers:

(A) Quality service, including service quality control and means for investigating and dealing with subscriber's complaints regarding quality of service;

(B) Accurate and precise billing of subscriber, including control over the billing and means for investigating and dealing with subscriber's complaints regarding incorrect billing and tools and means of identification and prevention of fraud and deception;

(C) Consumer response to subscriber's queries and questions, including tools and means of providing an itemized bill for subscribers, and for investigating subscriber's queries in all matters related to receipt of international services.

7.3 In order to implement the provisions of this appendix, the Licensee will act, inter alia, as follows:

(A) Allow any subscriber who has not blocked outgoing international ITMS calls to make international calls at any time via his chosen international operator or as a chance caller, using dialing methods set out in section 2;

(B) Allow all subscribers to change their chosen operators; this service will be given in return for a reasonable charge,

(C) Take reasonable measures to prevent subscriber ascription to a chosen operator without his knowledge or against the subscriber's wishes ("slamming"); these measures will include identification of the subscriber and verification of the subscriber's right to receive service;

(D) Give all subscribers, free of charge, service allowing them to identify the name of their chosen operators;

(E) The Licensee will offer non-discriminatory conditions to all international operators, including in all matters regarding the commercial conditions, billing and collections arrangements, availability of connection installations and quality of service; without derogating from the generality of the aforesaid, the Licensee will provide service for all international operators under equal conditions including in the matter of interconnection, provision of infrastructure installations and connection services to the network, performance of changes in switching, in installations, protocols and network interface;

(F) The conditions for interconnection between the Licensee's system and the international operator's international telecommunications system will be reasonable and non-discriminatory; if the parties have not reached any agreement, the Minister will determine matters between them;

(G) A copy of any agreement between the Licensee and international operator in the matter of interconnection will be delivered to the Director;

(H) Any international operator requesting the particulars of a subscriber refusing to make payments to the Licensee designated for the international operator for services used via the international operator's international telecommunications system will be given over, whether such subscriber was an ascription subscriber or a chance caller; these particulars will include the first name, last name or name of corporation, ID number of ID number of the corporation, address and telephone number.

(I) [A22] Allow international operators to collect payment directly for services from subscribers ascribed to such international operator, and who have chosen to receive billing and collections services directly; the Licensee will have any vital information required by the international operator at his disposal allowing the international operator to provide billing and collection services for such aforesaid ascribed subscribers;

(J) [A22] Provide services under equal and non-discriminatory conditions and for such charge not discriminating against an ascribed subscriber who has chosen to receive billing and collection services from the international operator.

7.4 The international operators will bear the costs of implementation of the interconnection including the process of survey and blocking short dialing codes, and, if so required, for a subscriber's initial ascription to a chosen operator; the rate of payments, as stated, will be determined under negotiation between the Licensee and the international operator; the Licensee's shared expenses that cannot be ascribed to a particular international operator will be divided equally between all international operators; if the parties have not come to an arrangement, the Minister will prescribe instructions in these matters, after giving the parties a fair opportunity to argue their claims before him.

First Schedule – Void [A23]

Second Schedule – Void [A23]

Appendix K

Appendix K – Discontinuation of Service to Cellular End-User Equipment of the IS-54 type[t7]

Definitions **1.** In this appendix -

"Old technology phone" –	A cellular phone operating on IS-54 format;
"New technology phone" -	A cellular phone operating on IS-136 format;
"Upgradeable telephone" -	An old technology phone that may be upgraded to a new technology phone;
"Date of cessation of service" -	The date on which the Licensee ceases to provide cellular services to an old technology phone owner.
"Eligible customer" -	The Licensee's subscriber or customer who has lawfully purchased an old technology telephone and has not exchanged or upgraded it to a new technology phone;
"Telephone Number" -	The number of the cellular telephone given to a subscriber or customer who lawfully purchased an old technology phone and connected to the Licensee's network;
"Upgrade" -	Exchanging the software version of the telephone upgrades the telephone, wherein it becomes a new technology phone.

Discontinuation of service 2. Notwithstanding the aforesaid in section C of chapter E of the General License, the Licensee may discontinue provision of cellular services to eligible customers, provided all the following provisions apply:

Publication 3. (A) The Licensee will publish an appropriate notice under these provisions in three of the largest newspapers in Israel, one of which is published in Arabic, on the closest Friday to the date 30 days before the date of cessation of service.

(B) The Licensee will publish an appropriate notice under these provisions in three of the largest newspapers in Israel, one of

[t7] Amendment 7

Appendix K

which is published in Arabic, on the closest Friday to the date 30 days earlier than the end of six months from the date of cessation of service.

Exchange of telephone

4. The Licensee will exchange an old technology telephone including all accessories thereto, including a hands-off device, for a new technology telephone, including all accessories thereto, for any eligible customer, on the basis of accessory for accessory, including the installation thereof, provided the new technology telephone is of no lesser features than the new technology telephone's features, free of any direct or indirect charge to the customer.

Upgrade

5. The Licensee will upgrade an eligible customer's upgradeable telephone, free of any direct or indirect charge to the customer.

Telephone number

6. The Licensee will keep the telephone number allocated to any eligible customer before the date of cessation of service for a period of six months from the date of cessation of service; after this period the Licensee may exchange the telephone number of an eligible customer who did not exchange the old technology telephone to a new technology telephone or did not upgrade an upgradeable phone during that period.

Notice of Application

7. The Licensee shall inform the Director in advance and in writing of the day of Discontinuation of Service and of the days of Publication as detailed in sub-sections 3(A) and (B) above and shall furnish the Director with copies of the notices as published.

Period

8. The Licensee will fulfill the provisions of sections 4 and 5 above starting on the date of publication prescribed in sub-section 3(A) above for a period of 7 years from the date of cessation of service.

Conditions of service

9. The provisions of sections 4, 5 and 6 will be deemed a condition of service, as defined in section 37B.(A)(1) of the Telecommunications Law.

Appendix O

Appendix O – Erotic Services[t36 effect]

1. Definitions

1.1 In this appendix –

Licensee - One who has been given a general license by the Minister for provision of NDO or cellular services;

Telephone bill - A bill given to the subscriber by the Licensee for services provided;

Writing - Including via facsimile or electronic mail;

Service number - A number of digits allocated to an erotic services provider by the Licensee, given by dialing a telephone number, subject to the provisions of the numbering program and administrative provisions in this matter, the dialing of which, following a dialed prefix, allows the subscriber access to the service;

Services provider - One who provides erotic services via the network, and payment for the service is made through the telephone bill; in the matter of erotic services provided through dialing a telephone number, access to the services is achieved through a service number;

Erotic promo Broadcast or presentation of an audio or visual message with sexual content, including a recorded message, given via a telecommunications facility, directly or indirectly, and such message is intended to provide information on a service following or to encourage the use thereof, provided the broadcast of the message or presentation are made without additional charge beyond the charge for a telephone call collected via the telephone bill;
In this matter, "indirectly" – including by way of creating a connection from the subscriber's end user equipment as a condition of providing the erotic promo.

Area code A national area code in such model as prescribed by the Ministry for erotic services;

The network - The Licensee's public telecommunications network.

Erotic services - Audio broadcast or presentation of an audio or visual message with sexual content, including recorded messages, given via a telecommunications facility, directly or indirectly, including services for dating, chats, or sending messages between chance callers, designated or serving, even in part, for sexual purposes,

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[A36] Amendment no. 36
[effect] This amendment will go into effect on the 1st of Nissan, 5766(March 30, 2006)

which are any of the following:

(1) A service provided through the dialing of a telephone number given by a service provider;
(2) An access service to a closed data base of contents including multimedia files, held by the Licensee or by another provider of the service with the Licensee's consent (hereinafter: the "**cellular portal"**).

In this matter, "indirectly" – including by way of creating a connection from the subscriber's end user equipment as a condition of providing the service or for charging for it;

Payment regulations - The Communications Law (Telecommunications and Broadcasts) (Payment for Telecommunications' Services), 5765 – 2005;

Special payment - A price fixed as stated in section 6, which the subscriber is required to pay for erotic services in addition to the regular payment;

Payment Per time - A special payment, the rate of which is determined by the amount of time the subscriber used the erotic service;

Regular payment - One of the following:

(A) For a call within the network – a payment that does not exceed the fixed charge according to the rate agreement between the subscriber and the Licensee regarding a call to another subscriber in the same network;
(B) For a call from one cellular network to another cellular network or to a NDONDO network – payment as set out in sub-section (A) plus a payment that does not exceed NIS 0.50 per minute (including VAT);
(C) For a call from the Bezeq company network to a cellular network – a charge that does not exceed that prescribed by the letter D in table A in the First Schedule of the Payment Regulations, plus NIS 0.50 per minute (including VAT);
(D) For a call from a NDONDO network, except the Bezeq company network, to a cellular network – a charge that does not exceed the fixed charge according to the rate agreement between NDO subscribers and NDO, with respect to another subscriber number within the same network, plus NIS 0.50 per minute.
(E) For erotic services given via the cellular portal – a charge that does not exceed the fixed charge according to the rate agreement between the subscriber and the Licensee with regard to access service to the cellular portal.

2. Access through Dialing

2.1 Subject to the provisions of section 4, access to erotic services given through dial-up will be made available to subscribers via an area code and service number.

Appendix O

3. **Allocation of Service Number**

3.1. In the matter of erotic services provided by dial-up, the Licensee may allocate a service number to a service provider; in such case, the Licensee will allow the service provider to provide services to both the Licensee's subscribers as well as subscriber to other licensees.

4. **Blocking Access**

4.1. A. [A38] A Licensee will block access to erotic services from all end-user equipments connected to the network; without derogating from the aforesaid, for the purpose of blocking access to erotic services given though the cellular portal, the Licensee may make use of a means of blocking, including content filtering programs, provided they efficiently block access to said service.

B. [A38] Should the Ministry of Communications notify the Licensee that an erotic promo is being given through the Licensee's telephone line or network, without access through a service number, the Licensee will cut off said line, or block the line from receiving incoming calls;

4.2 A subscriber 18 years of age or more may request the Licensee remove a block imposed as described in section 4.1A[A38] from his end user equipment.

4.3 A request for such removal of a block will be made in writing, or verbally, provided the Licensee has prescribed a procedure allowing accurate identification of the requesting subscriber.

4.4 If a subscriber has so requested a block removed, the Licensee will remove the block within a reasonable time, in a manner allowing the subscriber access to erotic services via the end user equipment in his possession.

4.5 If a block has been removed for erotic services as stated, and the subscriber requests that his end user equipment again be blocked for such services, the Licensee shall perform the block at the soonest possible opportunity, and by no later than 2 work days from the date of receipt of the subscriber's request.

4.6 The first removal of a block against erotic services, made at the subscriber's request as stated in sections 4.2 and 4.3 will be made free of charge; the Licensee may charge the subscriber a reasonable fee for any additional blocking access to erotic services or for additional removal of such block, made at the subscriber's request.

5. **Early Registration**

5.1 Notwithstanding that stated in section 4 above, the Licensee may establish a duty of early subscriber registration for receipt of a password, a submission of which will be a precondition for receipt of erotic services. The provisions of this section do not derogate from the provisions of sections 4.2 and 4.3 above.

6. Special Payment

6.1 If special payment is prescribed for erotic services, the rate shall be fixed by the Licensee or in agreement between the Licensee and the services provider.

Appendix O

7. Charging the Subscriber

7.1. If special payment is prescribed for erotic services, the Licensee's phone bill will show the payment for the service separately from charges for the Licensee's other services, unless the subscriber has requested otherwise.

7.2. The Licensee shall provide the subscriber, upon demand and within ten (10) working days, details of the special payment for erotic services as follows:

(A) The service number the service allocated;

(B) The date and time service was provided;

(C) Billing time units – when charging per time – the number of time units charged or the total amount of the special payment; in the case of a charge according to traffic volume (such as MB, KB), the number of volume units transferred;

(D) The sum charged for the service.

The Licensee may collect a reasonable fee for specification of the special payment.

8. Mandatory Tender

8.1 If a special payment has been fixed for erotic services provided through the network, the Licensee, either himself or via the services provider, will play a recorded message at the beginning of the call, containing the following details:

A. The essence of the service;

B. Rate of special payment for the service, according to payment per time or per traffic volume, as the case may be;

C. The option to discontinue the service, without charge, before the signal is heard, as stated in section 8.4.

8.2 The recorded message will be played in the language in which the erotic service is provided, in comprehensible language, at a reasonable pace and without recording defects.

8.3 At the start of erotic services provided in a language not Hebrew, a message will be played announcing the language in which the service is provided, and after, the recorded message will be played, as stated in sections 8.1 and 8.2, in the language in which the service is provided.

8.4 Upon completion of the recorded message, as stated in section 8.1, the caller will have a 5 second interval, at the end of which a signal indicating the start of the erotic services; if the caller disconnected the call before the signal was heard, he will not be charged the special payment. Alternatively, the caller will be asked to press a certain key on his end user equipment in order to confirm that he desires to accept the service, and will be charged the special payment only from the moment he so acts.

8.5 If a special payment is fixed for erotic services provided by access to the cellular portal, the Licensee will notify subscribers regarding the price of the service in an obvious and clear manner, providing the subscriber the option to disconnect from the service without being charged the special payment.

9. **Licensee –Services Provider Relations**

9.1 The Licensee may allow a services provider to perform telecommunications operations via its installations in order to provide erotic services; the services provider will be exempt from the duty of obtaining a license for telecommunications services, under the provisions of section 3(5) of the Law.

9.2 The Licensee will include the provisions of this appendix, mutatis mutandis, in the agreement between the Licensee and the services provider, in such manner that the services provider will be obligated to fulfill said provisions.

9.3 The Licensee will provide the Director with any agreement between such and a services provider, upon demand.

10. **Interconnection**

10.1 The conditions for interconnection between the network and the Licensee's public telecommunications network, in all matters relating to provision of billing and collection services by one Licensee to another licensee, for purposes of provision of erotic services given via the network to another licensee's subscriber, will be formalized in an agreement between the Licensee and the other licensee; if the parties cannot reach an agreement, the Minister will decide on the matter.

10.2 The Licensee will, upon demand, provide the Director with a signed copy of all agreement it has with other licensees in the matter of said interconnection.

11. **General**

11.1 The Licensee will be responsible to handle all erotic services customer complaints, in all matters relating to subscriber access to the service, and problems of billing and collection in connection with the service, and will establish a mechanism for dealing with customer queries for such purpose; the services provider will be responsible to deal with subscriber complaints in regard to service content. If the Licensee himself provides the erotic services, the Licensee will be responsible to handle erotic services customer complaints regarding the service content as well.

11.2 The Licensee may not disconnect, stop or harm the basic telephone services of a subscriber who has used erotic services and refuses to pay for such, however, the Licensee may disconnect such subscriber from continued use of the erotic services.

11.3 The Licensee may not provide a subscriber's particulars to another services provider or to others, without the subscriber's written consent , and only after verification of the authenticity of such consent.

11.4 A Licensee shall, within three (3) working days, provide any subscriber so requesting the following particulars regarding the services provider, without charge:

A. The name and address of the provider;
B. The telephone number at which such provider may be reached.

11.5 The provisions of this appendix will apply, mutatis mutandis, to provision of erotic services provided as a network service to the Licensee's subscribers only.

11.6 The Licensee may himself provide erotic services, and the provisions of this appendix will apply thereto, mutatis mutandis.

Exhibit 12.1

I, Amos Shapira, Chief Executive Officer of the Company, certify that:

1. I have reviewed this annual report on Form 20-F of Cellcom Israel Ltd;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in

this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 2, 2009

Amos Shapira
Chief Executive Officer

Exhibit 12.2

I, Tal Raz, Chief Financial Officer of the Company, certify that:

1. I have reviewed this annual report on Form 20-F of Cellcom Israel Ltd;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness

of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 2, 2009

Tal Raz
Chief Financial Officer

Exhibit 13.1

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Cellcom Israel Ltd. for the year ended December 31, 2008 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Amos Shapira, the Chief Executive Officer and Tal Raz, the Chief Financial Officer of Cellcom Israel Ltd., each certifies that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cellcom Israel Ltd..

Date: March 2, 2009

_____

Name: Amos Shapira
Chief Executive Officer

_____

Name: Tal Raz
Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Cellcom Israel Ltd.:

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-141639) of Cellcom Israel Ltd. of our report dated March 1, 2009, with respect to the consolidated balance sheets of Cellcom Israel Ltd. and subsidiaries ("the Company"), as of December 31, 2008 and 2007, and the related consolidated income statements, consolidated statements of recognized income and expenses and consolidated cash flows for the years then ended, and the effectiveness of internal control over financial reporting as of December 31, 2008, which report appears in the December 31, 2008 annual report on Form 20-F of Cellcom Israel Ltd. Our report contains emphasis paragraphs noting the following:

The Company's annual consolidated financial statements for 2007 were previously prepared in conformity with Israeli generally accepted accounting principles. As more fully described in note 2A to the consolidated financial statements, the Company elected in 2008 to change the basis of accounting used in preparing its financial statements for it to be in conformity with International Financial Reporting Standards. Consequently, the Company's prior annual financial statements for 2007 referred to above are now being presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements as of and for the year ended December 31, 2008 have been translated into United States dollars ("dollars") solely for the convenience of the reader. The consolidated financial statements expressed in New Israeli Shekels have been translated into dollars on the basis set forth in Note 2D of the notes to the consolidated financial statements.

Somekh Chaikin
Certified Public Accountants (lsr.)
Member Firm of KPMG International

Tel Aviv, Israel

March 1, 2009

סלקום ישראל בע"מ
וחברות מאוחדות שלה

תרגום נוחות בלבד
לדוחות הכספיים
ליום 31 בדצמבר 2008

(הנוסח המחייב הינו הנוסח של הדוחות הכספיים באנגלית)

תוכן העניינים

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מאזנים מאוחדים ליום 31 בדצמבר

	באור	2008 מיליוני ש"ח	תרגום נוחות לדולר ארה"ב (באור 2 ד) 2008 מיליוני דולר	2007 מיליוני ש"ח
נכסים				
מזומנים ושווי מזומנים	6	**275**	**72**	911
לקוחות	7	**1,478**	**389**	1,385
חייבים ויתרות חובה, כולל נגזרים	7	**112**	**30**	96
מלאי	8	**119**	**31**	245
סה"כ נכסים שוטפים		**1,984**	**522**	2,637
לקוחות וחייבים אחרים	7	**602**	**158**	575
רכוש קבוע, נטו	9	**2,159**	**568**	2,335
נכסים בלתי מוחשיים, נטו	10	**675**	**178**	685
סה"כ נכסים לזמן ארוך		**3,436**	**904**	3,595
סה"כ נכסים		**5,420**	**1,426**	6,232

תאריך אישור הדוחות הכספיים: 1 במרץ 2009

הבאורים לדוחות הכספיים מהווים חלק בלתי נפרד מהם.

	באור	2008 מיליוני ש"ח	תרגום נוחות לדולר ארה"ב (באור 2 ד) 2008 מיליוני דולר	2007 מיליוני ש"ח
התחייבויות				
הלוואות לזמן קצר	14	**329**	**87**	353
ספקים והוצאות לשלם	11	**677**	**178**	953
התחייבויות מס שוטפות		**65**	**17**	122
הפרשות	12	**47**	**13**	91
זכאים ויתרות זכות, כולל נגזרים	13	**385**	**101**	384
סה"כ התחייבויות שוטפות		**1,503**	**396**	1,903
הלוואות לזמן ארוך מתאגידים בנקאיים	14	**-**	**-**	343
אגרות חוב	14	**3,401**	**895**	2,983
הפרשות	12	**17**	**4**	14
זכאים ויתרות זכות לזמן ארוך		**1**	**-**	3
מיסים נדחים	25	**156**	**41**	149
סה"כ התחייבויות לזמן ארוך		**3,575**	**940**	3,492
סה"כ התחייבויות		**5,078**	**1,336**	5,395
הון עצמי	16			
הון מניות		**1**	**-**	1
קרן הון		**(11)**	**(3)**	(33)
עודפים		**352**	**93**	869
סה"כ הון עצמי		**342**	**90**	837
סה"כ התחייבויות והון עצמי		**5,420**	**1,426**	6,232

הבאורים לדוחות הכספיים מהווים חלק בלתי נפרד מהם.

	באור	2008 מיליוני ש"ח	תרגום נוחות לדולר ארה"ב (באור 2 ד) 2008 מיליוני דולר	2007 מיליוני ש"ח
הכנסות ממכירות ושירותים	19	**6,417**	**1,688**	6,050
עלות המכירות והשירותים	20	**3,402**	**895**	3,377
רווח גולמי		**3,015**	**793**	2,673
הוצאות מכירה ושיווק	21	**701**	**185**	685
הוצאות הנהלה וכלליות	22	**659**	**173**	653
הוצאות (הכנסות) אחרות, נטו	23	**(29)**	**(8)**	3
רווח מפעולות רגילות		**1,684**	**443**	1,332
הכנסות מימון		**83**	**22**	140
הוצאות מימון		**(393)**	**(104)**	(287)
עלויות מימון, נטו	24	**(310)**	**(82)**	(147)
רווח לפני מיסים על הכנסה		**1,374**	**361**	1,185
מיסים על ההכנסה	25	**389**	**102**	310
רווח נקי		**985**	**259**	875
רווח למניה				
רווח בסיסי למניה בש"ח	3יד'	**10.08**	**2.65**	8.97
רווח על בסיס דילול מלא בש"ח	3יד'	**9.92**	**2.61**	8.89
מספר מניות ממוצע ששימשו לחישוב רווח בסיסי למניה (באלפים)		**97,721**	**97,721**	97,500
מספר מניות ממוצע ששימשו לחישוב רווח מדולל למניה (באלפים)		**99,280**	**99,280**	98,411

הבאורים לדוחות הכספיים מהווים חלק בלתי נפרד מהם.

	לתקופה שהסתיימה ביום 31 בדצמבר		
	2008	תרגום נוחות לדולר ארה"ב (באור 2 ד) 2008	2007
	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח
שינוי נטו בשווי ההוגן של גידורי תזרים מזומנים שהועבר לדוח רווח והפסד	**44**	**12**	27
שינויים בשווי ההוגן של גידורי תזרים מזומנים	**(10)**	**(3)**	(28)
הוצאות מיסים שנזקפו ישירות להון	**(12)**	**(3)**	(8)
הכנסות והוצאות שנזקפו ישירות להון	**22**	**6**	(9)
רווח נקי שנתי	**985**	**259**	875
סה"כ הכנסות שהוכרו במהלך השנה	**1,007**	**265**	866

הבאורים לדוחות הכספיים מהווים חלק בלתי נפרד מהם.

	לתקופה שהסתיימה ביום 31 בדצמבר		
	2008	תרגום נוחות לדולר ארה"ב (באור 2 ד) 2008	2007
	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח
תזרימי מזומנים מפעילות שוטפת			
רווח נקי לתקופה	**985**	**259**	875
התאמות הדרושות כדי להציג את תזרימי המזומנים מפעילות שוטפת:			
פחת	**570**	**150**	619
הפחתות	**181**	**48**	156
ביטול הפרשה	**-**	**-**	(10)
רווח הון ממכירת קרקע	**(9)**	**(2)**	-
הפסד (רווח) ממכירת נכסים	**(9)**	**(2)**	4
הוצאות מיסים	**389**	**102**	310
עלויות מימון, נטו	**310**	**82**	147
תשלומים מבוססי מניות	**28**	**7**	29
שינויים בסעיפי רכוש והתחייבות:			
שינוי במלאי	**112**	**29**	(114)
שינוי בלקוחות (כולל חובות לקוחות לזמן ארוך)	**(117)**	**(31)**	(99)
שינוי בחייבים (כולל חובות לזמן ארוך)	**(34)**	**(9)**	(24)
שינוי בספקים והוצאות לשלם	**(271)**	**(71)**	188
שינוי בהתחייבויות אחרות (כולל לזמן ארוך)	**99**	**26**	92
תשלומים בגין חוזי גידור, נטו	**(38)**	**(10)**	(24)
תקבולים (תשלומים) בגין מכשירים נגזרים, נטו	**18**	**5**	(16)
מס הכנסה ששולם	**(451)**	**(119)**	(313)
מזומנים נטו שנבעו מפעילות שוטפת	**1,763**	**464**	1,820

הבאורים לדוחות הכספיים מהווים חלק בלתי נפרד מהם.

	לתקופה שהסתיימה ביום 31 בדצמבר		
	2008	תרגום נוחות לדולר ארה"ב (באור 2 ד) 2008	2007
	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח
תזרימי מזומנים מפעילות השקעה			
רכישת רכוש קבוע	**(429)**	**(113)**	(466)
רכישת נכסים בלתי מוחשיים	**(175)**	**(46)**	(97)
תשלומים בגין חוזי גידור, נטו	**(17)**	**(4)**	(12)
תמורה ממימוש רכוש קבוע	**19**	**5**	4
ריבית שהתקבלה	**17**	**4**	23
השקעה בפיקדון לזמן ארוך	**39**	**10**	(12)
מזומנים נטו ששימשו לפעילות השקעה	**(546)**	**(144)**	(560)
תזרימי מזומנים מפעילות מימון			
תקבולים (תשלומים) בגין מכשירים נגזרים, נטו	**31**	**8**	(10)
פרעון הלוואות לזמן ארוך מבנקים	**(648)**	**(171)**	(645)
תשלומים בגין אגרות חוב	**(125)**	**(33)**	-
תמורה מהנפקת אגרות חוב, בניכוי עלויות הנפקה	**589**	**155**	1,066
דיבידנד ששולם	**(1,525)**	**(401)**	(639)
ריבית ששולמה	**(175)**	**(46)**	(177)
מזומנים נטו ששימשו לפעילות מימון	**(1,853)**	**(488)**	(405)
שינוי במזומנים ושווי מזומנים	**(636)**	**(168)**	855
יתרת מזומנים ושווי מזומנים לתחילת התקופה	**911**	**240**	56
יתרת מזומנים ושווי מזומנים לסוף התקופה	**275**	**72**	911

הבאורים לדוחות הכספיים מהווים חלק בלתי נפרד מהם.

באור 1 - כללי

סלקום ישראל בע"מ וחברות הבנות שלה ("החברה") התאגדו כחברות בישראל והינן תושבות ישראל. הדוחות הכספיים המאוחדים של החברה ליום 31 בדצמבר 2008, כוללים את סלקום ישראל בע"מ והחברות הבנות שלה. החברה מפעילה ומתחזקת מערכת תקשורת סלולרית ומספקת שירותי טלפון סלולארי בישראל. החברה הינה חברת בת של חברת דיסקונט השקעות (להלן: "דסק"ש") שהינה חלק מקבוצת IDB.

באור 2 - בסיס עריכת הדוחות הכספיים

א. הצהרה על עמידה בתקני דיווח כספי בינלאומיים

הדוחות הכספיים המאוחדים הוכנו בהתאם לתקני דיווח כספי בינלאומיים (IFRS) אשר פורסמו על ידי הוועדה לתקני חשבונאות בינלאומיים (ה-IASB). אלו הדוחות השנתיים הראשונים של החברה שהוכנו בהתאם ל-IFRS, אשר פורסמו על ידי ה-IASB ושיושם בהם IFRS 1, *אימוץ לראשונה של תקני IFRS*.

בנוגע להשפעת המעבר ל-IFRS על מצבה הכספי של החברה ועל תוצאות פעילותה ותזרימי המזומנים שלה לשנה שנסתיימה ביום 31 בדצמבר 2007, ראה באור 31.

הדוחות הכספיים המאוחדים אושרו לפרסום על ידי דירקטוריון החברה ביום 1 במרץ 2009.

ב. מטבע פעילות ומטבע הצגה

הדוחות הכספיים המאוחדים מוצגים בש"ח, שהינו מטבע הפעילות של החברה, ומעוגלים למיליון הקרוב. השקל הינו המטבע שמייצג את הסביבה הכלכלית העיקרית בה פועלת החברה.

ג. בסיס המדידה

הדוחות הוכנו על בסיס העלות ההיסטורית למעט מכשירים פיננסיים נגזרים הנמדדים לפי שווי הוגן.
ערכם של נכסים לא כספיים ופריטי הון עצמי שנמדדו על בסיס העלות ההיסטורית, הותאם לשינויים בכח הקניה הכללי של המטבע הישראלי- ש"ח, בהתבסס על השינויים במדד המחירים לצרכן בישראל ("מדד") עד ליום 31 בדצמבר 2003, היות ועד למועד זה נחשבה מדינת ישראל ככלכלה היפראינפלציונית.

ד. תרגום נוחות לדולרים של ארה"ב ("דולרים" או "$")

לצורך נוחות קורא הדוחות הכספיים, המספרים המדווחים בש"ח ליום 31 בדצמבר 2008, הוצגו בדולר ארה"ב, לפי השער היציג של דולר ארה"ב ליום 31 בדצמבר 2008 (1.00$ = 3.802 ש"ח). אין להסיק כי, הסכום הדולרי המוצג בדוחות הכספיים מייצג סכומים לקבל או לשלם בדולרים, או שניתן להמירם לדולרים, אלא אם צוין אחרת.

ה. שימוש באומדנים ובשיקול דעת

בעריכת הדוחות הכספיים בהתאם ל-IFRS, נדרשת הנהלת החברה להשתמש בשיקול דעת בהערכות, אומדנים והנחות אשר משפיעים על יישום המדיניות החשבונאית ועל הסכומים של נכסים והתחייבויות, הכנסות והוצאות. בשיקול דעתה בקביעת האומדנים, מתבססת הנהלת החברה על ניסיון העבר, משתנים שונים, גורמים חיצוניים ועל הנחות סבירות בהתאם לנסיבות המתאימות לכל אומדן. יובהר שהתוצאות בפועל עלולות להיות שונות מאומדנים אלה.

באור 2 - בסיס עריכת הדוחות הכספיים (המשך)

ה. שימוש באומדנים ובשיקול דעת (המשך)

האומדנים וההנחות שבבסיסם נסקרים באופן שוטף. שינויים באומדנים חשבונאיים מוכרים בתקופה שבה תוקנו האומדנים ובכל תקופה עתידית מושפעת. מידע בדבר הערכות, הנחות ואומדנים קריטיים לגבי הפרשות ותלויות מפורטות בביאורים 12 ו-28. בנוסף, מידע לגבי אומדנים קריטיים שנערכו תוך יישום המדיניות החשבונאית והם בעלי השפעה מהותית על הדוחות הכספיים מוצג להלן:

לקוחות
הדוחות הכספיים כוללים ירידת ערך ביתרת לקוחות וחייבים אחרים המשקפים באופן נאות, בהתאם להערכות ההנהלה, את ההפסד הפוטנציאלי מיתרות שאינן ניתנות לגביה. החברה מפרישה לירידת ערך בהתבסס על ניסיון העבר בגביית חובות, וכן על בסיס מידע ספציפי על בעלי חוב. המרכיבים העיקריים של הפרשה זו הינם רכיב הפסד ספציפי המיוחס לחשיפות משמעויות המזוהות בנפרד, ולרכיב הפסד גלובלי המבוסס על קבוצה של נכסים דומים בהתייחס להפסדים שאירעו אך עדיין לא זוהו. ההפרשה להפסד הגלובלי נקבעת על בסיס סטטיסטיקה של היסטוריית התשלומים בגין נכסים דומים. ראה בנוסף באור 18.

ירידת ערך ואורך חיי נכסים
החברה בוחנת באופן שוטף את הערך בספרים של נכסיה על מנת לקבוע האם קיימת אינדיקציה לביצוע ירידת ערך. ראה בנוסף באור 3ז'.
ערך החיים הכלכלי של נכסי החברה נקבע על ידי ההנהלה בזמן רכישת הנכסים, ונאותותו נבחנת באופן שוטף. החברה מגדירה את אורך חיי נכסיה בהתאם לתקופה הצפויה שבה עתידים הנכסים להפיק תועלת לחברה. הערכה זו מבוססת על ניסיון החברה עם נכסים דומים. אורך החיים של רישיונות מבוסס על משך תקופת הרישיון. ראה בנוסף באורים 3ד' ו-3ה'.

תשלומים מבוססי מניות
אופציות שהוענקו לעובדים נמדדות תוך שימוש במודל בלק ושולס (Black - Scholes). משך החיים הצפוי של האופציות לפי המודל הותאם, בהתאם להערכות ההנהלה, להשפעות אי-הסחירות, הגבלות המימוש ושיקולים התנהגותיים. הסכום שהוכר כהוצאה הותאם על מנת לשקף את מספר האופציות שהובשלו. ראה בנוסף באור 17.

באור 3 - מדיניות חשבונאית

הדוחות הכספיים המאוחדים הוכנו על בסיס תקני דיווח כספי בינלאומיים, שפורסמו על ידי ה-IASB, וההבהרות להם (להלן: תקני IFRS) אשר פורסמו ונכנסו לתוקף או הניתנים לאימוץ מוקדם במועד הדיווח השנתי הראשון לפי IFRS, 31 בדצמבר 2008, ושעל בסיסם נקבעה המדיניות החשבונאית של החברה.

הכנת הדוחות המאוחדים על פי IFRS הביאה לשינויים במדיניות החשבונאית לעומת הדוחות השנתיים האחרונים אשר הוכנו על פי כללי החשבונאות המקובלים בישראל. כללי המדיניות החשבונאית המפורטים להלן יושמו בעקביות לכל התקופות המוצגות בדוחות מאוחדים אלו. הם אף יושמו בהכנה של מאזן פתיחה לפי IFRS ליום 1 בינואר 2007 לצורך המעבר ל-IFRS, כפי שנדרש ב- IFRS 1. השפעת המעבר מכללי החשבונאות המקובלים בישראל ל-IFRS מוסברת בבאור 31.

א. איחוד הדוחות הכספיים

הדוחות הכספיים המאוחדים כוללים איחוד הדוחות הכספיים של החברה ושל החברות המוחזקות במלואן על ידי החברה: סלקום נכסים (2001) בע"מ, סלקום אחזקות (2001) בע"מ וסלקום תקשורת קווית ש.מ., שותפות מוגבלת. כל היתרות והעסקאות בין החברות בוטלו לצורך איחוד הדוחות הכספיים.

ב. עסקאות במטבע חוץ

עסקאות במטבע חוץ מתורגמות לפי שער החליפין שבתוקף בתאריכי העסקאות. נכסים והתחייבויות כספיים הנקובים במטבע חוץ בתאריך הדיווח, מתורגמים לש"ח לפי שער החליפין שבתוקף לאותו יום. הפרשי שער הנובעים מתרגום מוכרים ברווח והפסד. נכסים והתחייבויות לא כספיים הנמדדים לפי העלות ההיסטורית במטבע חוץ מתורגמים לפי שער החליפין ביום העסקה. נכסים והתחייבויות לא כספיים הנקובים במטבעות חוץ והנמדדים לפי שווי הוגן, מתורגמים לש"ח לפי שער החליפין שבתוקף ביום בו נקבע השווי ההוגן.

באור 3 - עיקרי המדיניות החשבונאית (המשך)

ג. מכשירים פיננסיים

מכשיר פיננסי מוכר כאשר החברה מקבלת על עצמה את התנאים החוזיים של המכשיר. נכסים פיננסיים נגרעים כאשר הזכויות החוזיות של החברה לתזרימי המזומנים הנובעים מהנכסים הפיננסיים פוקעות, או כאשר החברה מעבירה לאחרים את הנכסים הפיננסיים מבלי להשאיר בידה שליטה בנכס או כאשר מעבירה למעשה את כל הסיכונים וההטבות הנובעים מהנכס. רכישות ומכירות של נכסים פיננסיים מוכרות במועד העסקה, שהוא המועד בו התחייבה החברה לקנות או למכור את הנכס. התחייבויות פיננסיות נגרעות כאשר מחויבות החברה פוקעת או כאשר היא סולקה או בוטלה.

1. מכשירים פיננסיים שאינם נגזרים
מכשירים פיננסיים שאינם נגזרים כוללים מזומנים ושווי מזומנים, לקוחות, חייבים ויתרות חובה, הלוואות, אגרות חוב, ספקים וזכאים ויתרות זכות. מכשירים פיננסיים שאינם נגזרים נמדדים בעלות מופחתת תוך שימוש בשיטת הריבית האפקטיבית, במידה וישים, בניכוי ירידת ערך.

2. מכשירים פיננסיים נגזרים
החברה מחזיקה מכשירים פיננסיים נגזרים לצרכי גידור סיכוני מטבע חוץ וסיכוני ריבית. נגזרים משובצים מופרדים מהחוזה המארח ונרשמים בשווי הוגן אם: (1) אין קשר הדוק בין המאפיינים הכלכליים והסיכונים של החוזה המארח ושל הנגזר המשובץ, (2) מכשיר נפרד בעל אותם תנאים כשל הנגזר המשובץ היה עומד בהגדרת נגזר ו- (3) המכשיר המשולב אינו נמדד לפי שווי הוגן דרך רווח והפסד.

נגזרים מוכרים לראשונה לפי שווי הוגן; עלויות עסקה הניתנות לייחוס נזקפות לרווח והפסד עם התהוותן. לאחר ההכרה הראשונית, נמדדים הנגזרים לפי שווי הוגן. השינויים בשווי ההוגן מטופלים כמתואר להלן:

גידור תזרימי מזומנים
שינויים בשווי ההוגן של נגזרים המשמשים לגידור תזרימי מזומנים, בגין החלק האפקטיבי, נזקפים ישירות להון העצמי. בגין החלק שאינו אפקטיבי, נזקפים השינויים בשווי ההוגן לרווח והפסד.

אם המכשיר המגדר אינו עונה עוד לקריטריונים לגידור חשבונאי, או שהוא פוקע או נמכר, מבוטל או ממומש, אזי נפסק הטיפול לפי חשבונאות גידור. הרווח או ההפסד שנצבר קודם לכן בהון, נשאר בהון עד אשר תתקיים העסקה החזויה או שאינה צפויה עוד להתקיים. הסכום שנזקף להון מועבר לרווח והפסד בתקופה שבה משפיע הסעיף המגודר על רווח והפסד.

גידור כלכלי
חשבונאות גידור אינה מיושמת לגבי מכשירים נגזרים המשמשים לגידור כלכלי של נכסים והתחייבויות פיננסיים הנקובים במטבע חוץ. השינויים בשווי ההוגן של נגזרים אלה נזקפים לרווח והפסד, כחלק מרווחים או הפסדים ממטבע חוץ.

נגזרים משובצים הניתנים להפרדה
שינויים בשווי ההוגן של נגזרים משובצים הניתנים להפרדה נזקפים מיידית לרווח והפסד.

3. מכשירים פיננסיים צמודי מדד שאינם נמדדים לפי שווי הוגן
ערך מכשיר פיננסי בספרי החברה והתשלומים הנובעים ממנו משוערכים בכל תקופה בהתאם לשינויים במדד המחירים לצרכן.

4. הון מניות
מניות רגילות מסווגות להון העצמי. עלויות תוספתיות המתייחסות ישירות להנפקת מניות רגילות ואופציות למניות, מוצגות כהפחתה מההון, נטו ממס.

ד. רכוש קבוע

פריטי רכוש קבוע נמדדים לפי העלות בניכוי פחת שנצבר והפסדים מירידת ערך.

העלות כוללת יציאות הניתנות לייחוס ישיר לרכישת הנכס. עלות נכסים שהוקמו באופן עצמי כוללת את עלות החומרים ושכר עבודה ישיר, וכן כל עלות נוספת שניתן לייחס במישרין להבאת הנכס למיקום ולמצב הדרושים לכך שהוא יוכל לפעול באופן שהתכוונה ההנהלה, וכן עלויות פירוק ופינוי הפריטים ושיקום האתר בו ממוקם הפריט. עלות תוכנה שנרכשה, המהווה חלק בלתי נפרד מתפעול הציוד המתייחס, מהוונת כחלק מעלות ציוד זה.

באור 3 - עיקרי המדיניות החשבונאית (המשך)

ד. רכוש קבוע (המשך)

כאשר לחלקי רכוש קבוע משמעותיים יש אורך חיים שונה, הם מטופלים כפריטים נפרדים (רכיבים משמעותיים) של הרכוש הקבוע.

שינויים במחויבות לפירוק ופינוי פריטים ושיקום האתר בו הם ממוקמים, למעט שינויים הנובעים מחלוף הזמן, מתווספים או מנוכים מעלות הנכס בתקופה בה מתרחשים. הסכום שמנוכה מעלות הנכס אינו עולה על ערכו בספרים והיתרה מוכרת מידית בדוח רווח והפסד.

רווחים והפסדים ממימוש פריט רכוש קבוע נקבעים באמצעות השוואת התמורה מהמימוש לעלות הרכוש הקבוע, ומוצגים בנטו בסעיף "הוצאות (הכנסות) אחרות" בדוח רווח והפסד.

הפחת מחושב לפי שיטת הקו הישר. אם הנכס כולל מספר רכיבים בעלי משך שימוש משוער שונה, אז הרכיבים המשמעותיים מופחתים על בסיס משך השימוש המשוער שלהם. שיעורי הפחת השנתיים הינם:

	%
רשת התקשורת	5-20
בקרת הרשת וציוד בדיקה	15-25
כלי רכב	15
מחשבים וציוד חומרה	15-33
ריהוט וציוד משרדי	6-15

שיפורים במושכר - מופחתים לאורך תקופת השכירות, שאינה עולה על אורך חייו הכלכלי של הנכס.

ה. נכסים בלתי מוחשיים

נכסים בלתי מוחשיים כוללים עלויות בגין רשיונות ,תוכנות והוצאות נדחות.

(1) נכסים בלתי מוחשיים מוצגים על בסיס עלות, וכוללים עלויות ישירות הנדרשות להבאת הנכסים לכלל הפעלה. קבוצת נכסים בלתי מוחשיים דומים נמדדים על בסיס עלות בניכוי הפחתה שנצברה ובניכוי הפסדים מירידת ערך.

(2) עלויות פיתוח ישירות ועקיפות מסוימות הנובעות מפיתוח תוכנת מערכת מידע לשימוש עצמי, ועלויות שכר עבודה לעובדים העוסקים בפיתוח תוכנות במהלך שלב הפיתוח, מהוונות. עלויות אלו מופחתות לפי שיטת הקו הישר החל מהמועד בו הנכס מוכן לשימוש. עלויות שהתהוו במהלך שלב המחקר ולאחר שהנכס מוכן לשימוש נרשמות באופן מיידי כהוצאה.

(3) הוצאות נדחות בגין עמלות הנובעות מהרכשת מנויים חדשים, מוכרות כנכסים בלתי מוחשיים במידה והעלויות ניתנות למדידה בצורה מהימנה, הינן חלק בלתי נפרד מהחוזה וניתן ליחסן להרכשת מנוי ספציפי. במידה והעלויות אינן עומדות בקריטריונים כאמור, הן מוכרות כהוצאות באופן מיידי.

(4) הפחתה מחושבת לפי שיטת הקו הישר. אם נכס בלתי מוחשי כולל מספר רכיבים בעלי משך שימוש משוער שונה, אז הרכיבים המשמעותיים מופחתים על בסיס משך השימוש המשוער שלהם. שיעורי ההפחתה השנתיים הינם:

	%
רשיונות	5-6 (בעיקר 6%)
מערכות מידע	25
תוכנות	25

הוצאות נדחות מופחתות על פני 18 חודשים תקופה אשר מייצגת את תקופת ההתקשרות הצפויה של המנוי.

באור 3 - עיקרי המדיניות החשבונאית (המשך)

ו. מלאי

מלאי הטלפונים הסלולאריים, האביזרים הנלווים וחלקי החילוף מוצג לפי העלות או שווי המימוש נטו, כנמוך שבהם. העלות נקבעת לפי שיטת הממוצע הנע.

ז. ירידת ערך

1. נכסים פיננסיים

ירידת ערך של נכס פיננסי נבחנת כאשר קיימת ראייה אובייקטיבית לכך שאירוע אחד או יותר השפיעו באופן שלילי על אומדן תזרימי המזומנים העתידיים של הנכס.

הפסד מירידת ערך של נכס פיננסי, הנמדד לפי עלות מופחתת, מחושב כהפרש בין ערך הנכס בספרים לבין הערך הנוכחי של אומדן תזרימי המזומנים העתידיים, מהוון בשיעור הריבית האפקטיבית המקורית.

כל ירידות הערך מוכרות דרך רווח והפסד.

הפסד מירידת ערך מתבטל אם הביטול יכול להיות מיוחס באופן אובייקטיבי לאירוע שהתרחש לאחר שההפסד מירידת ערך הוכר. עבור נכסים פיננסיים הנמדדים לפי עלות מופחתת, הביטול מוכר דרך רווח והפסד.

2. רכוש קבוע ונכסים בלתי מוחשיים

הערך בספרים של רכוש קבוע ונכסים בלתי מוחשיים בעלי אורך חיים סופי, נבדק בכל מועד דיווח כדי לקבוע האם קיימים סימנים המצביעים על ירידת ערך. באם קיימים סימנים, כאמור, מחושב אומדן סכום בר ההשבה של הנכס על מנת לקבוע את היקף ירידת הערך (אם בכלל). במידה ולא ניתן להעריך את הסכום בר ההשבה עבור נכס ספציפי, החברה מעריכה את הסכום בר ההשבה של היחידה מניבת המזומנים שאליה משתייך הנכס.

במידה והסכום בר ההשבה של נכס (או של יחידה מניבת מזומנים) הינו נמוך מהערך בספרים, מבוצעת הפחתה של הערך בספרים של הנכס (או של היחידה מניבת המזומנים) לסכום בר ההשבה. הפסד מירידת ערך נזקף מיידית לרווח והפסד.

ירידות ערך שהוכרו בתקופות קודמות נבחנו בכל מועד דיווח שלא קיימים סימנים שההפסד פחת או שאינו קיים.

במידה ויש לבטל הפרשה לירידת ערך, יש לשערך את הערך בספרים של נכס (או יחידה מניבת מזומנים) לגובה הסכום בר ההשבה, שלא יעלה על הערך שהיה בספרים של הנכס (או של היחידה מניבת המזומנים), במידה ולא הייתה מבוצעת הפרשה לירידת ערך בשנים קודמות. ביטול הפרשה לירידת ערך נזקף באופן מיידי לרווח והפסד.

ח. הטבות לעובדים

1. הטבות לאחר סיום העסקה
בפועל כל המחויבות של החברה להטבות לאחר סיום העסקה ממומנות על ידי הפקדות לחברות ביטוח או לקרנות המנוהלות בידי נאמן. מחויבות להפקיד בתכנית הפקדה מוגדרת נזקפות כהוצאה לרווח והפסד במועד בו נוצרת המחויבות להפקיד.

2. הטבות לזמן קצר
מחויבות בגין הטבות לעובדים לזמן קצר נמדדות על בסיס לא מהוון, וההוצאה נזקפת בעת שניתן השירות המתייחס. הפרשה בגין הטבות לעובדים לזמן קצר מוכרת כאשר לחברה יש מחויבות נוכחית משפטית או משתמעת לשלם את הסכום האמור בגין שירות שניתן על ידי העובד בעבר וניתן לאמוד באופן מהימן את הסכום.

באור 3 - עיקרי המדיניות החשבונאית (המשך)

ח. הטבות לעובדים (המשך)

3. תשלומים מבוססי מניות

השווי ההוגן במועד ההענקה של אופציות לעובדים נזקף כהוצאת שכר ונלוות במקביל לגידול בעודפים, על פני התקופה בה מושגת זכאות העובדים לאופציות. הסכום שנזקף כהוצאה מותאם על מנת לשקף את מספר האופציות למניות אשר מבשילות.

אופציות שהוענקו לעובדים נמדדות תוך שימוש במודל בלק ושולס. משך החיים הצפוי של האופציות לפי המודל הותאם, בהתאם להערכות ההנהלה, להשפעות אי-הסחירות, הגבלות המימוש ושיקולים התנהגותיים.

ט. הפרשות

הפרשה מוכרת כאשר לחברה יש מחויבות נוכחית, משפטית או משתמעת, כתוצאה מאירוע שהתרחש בעבר, הניתנת לאמידה בצורה מהימנה, וכאשר צפוי כי תידרש זרימת הטבות כלכליות לסילוק המחויבות. ההפרשות נמדדות על פי אומדן ההנהלה הטוב ביותר באשר להוצאות הדרושות לסילוק ההתחייבות לתאריך המאזן.

י. הכנסות

הכנסות הנובעות משימוש ברשתות החברה, הכוללות הכנסות זמן אויר, קישורי גומלין ושירותי נדידה נרשמות עם מתן השרותים וכל הקריטריונים להכרה בהכנסה התקיימו.

ההכנסות ממכירת ציוד טלפון סלולארי הנלווה במתן שרותים מאופיין כחוזה מרובה רכיבים. בהתאם לכך, התמורה מציוד טלפון סלולארי, שאינה מותנת במסירת רכיבים נוספים (כגון: שרותים), נרשמת על פי השווי ההוגן ומוכרת כהכנסות מציוד בעת המסירה ללקוח וכאשר מתקיימים התנאים להכרה בהכנסה. התמורה משרותים מוכרת כהכנסות משרותים ונרשמת עם מתן השרותים.

החברה מכירה בהכנסה כאשר הסיכונים המשמעותיים וההנאות מהבעלות על הסחורה עוברים לקונה, קבלת התמורה צפויה, קיימת אפשרות להעריך באופן מהימן את אפשרות החזרת הסחורה והעלויות שהתהוו או שיתהוו בגין העסקה ניתנות לאמידה באופן מהימן, כאשר אין מעורבות ניהולית נמשכת בהתייחס לסחורה, וכן ההכנסה ניתנת למדידה באופן מהימן.

בהסכמים בהם קיימים מספר רכיבים, בגין התמורה מתבצע ייחוס בין הרכיבים על פי השווי ההוגן של כל רכיב בודד. החברה קובעת את השווי ההוגן של כל רכיב על בסיס המחיר בו הוא נמכר באופן נפרד במהלך העסקים הרגיל, לרבות הנחות, במידה וניתנות.

החברה מציעה שירותי ערך מוסף הכוללים תא קולי, הודעות טקסט ומולטימדיה, כמו גם יישומים הניתנים להורדה של מידע הכוללים רינגטונים, מוסיקה, משחקים ותוכן אינפורמטיבי אחר. ככלל, שירותים משופרים אלו ויישומי המידע יוצרים הכנסות נוספות משירותים באמצעות דמי מנוי חודשיים או באמצעות עלייה בשימושים בתכונות ויישומים אלו. שירותים אופציונאליים אחרים, כגון אחריות מורחבת על ציוד, ניתנים אף הם עבור תשלום חודשי ונמכרים בנפרד או בחבילה כחלק מתוכנית תעריפים. הכנסות משירותים מתקדמים ושירותים אופציונאליים מוכרות בעת היווצרותן.

הכנסות הנובעות מהסדרי אשראי לזמן ארוך נרשמות על בסיס הערך הנוכחי של תזרימי המזומנים העתידיים, מהוונות לפי שיעורי ריבית השוק במועד העסקה. ההפרש בין הסכום המקורי של האשראי לבין ערכו הנוכחי, כאמור לעיל, נפרס על פני תקופת האשראי ונרשם כהכנסות ריבית לאורך תקופת האשראי.

תקבולים ממכירת כרטיסי חיוג נרשמים תחילה כהכנסה נדחית ונזקפים כהכנסה בהתאם לשימוש בהם או עם פגות תוקפם.

כאשר החברה פועלת כסוכנת או כמתווכת מבלי לשאת בסיכונים ובהטבות הנגזרים מהעסקה, ההכנסות מוצגות על בסיס נטו (כרווח או עמלה). לעומת זאת, כאשר החברה פועלת כספק עיקרי ונושאת בסיכונים ובתשואות הנגזרים מהעסקה ההכנסות מוצגות על בסיס ברוטו, תוך אבחנה בין ההכנסה וההוצאה בגינה.

עלות המכירות כוללת בעיקר דמי רישוי שוטפים, הוצאות על קישור גומלין ונדידה, שכירות של אתרי בסיס, הוצאות פחת והפחתות והוצאות על תיקונים טכניים ותחזוקה הקשורות באופן ישיר למתן השירותים.

באור 3 - עיקרי המדיניות החשבונאית (המשך)

יא. תשלומי חכירה

תשלומים שבוצעו במסגרת חכירות תפעוליות נזקפים לדוח רווח והפסד לפי שיטת הקו הישר על פני תקופת החכירה.

יב. הכנסות והוצאות מימון

הכנסות מימון כוללות הכנסות ריבית בגין סכומים שהושקעו והכנסות ריבית ממכירות באשראי. הכנסות ריבית מוכרות עם התהוותן בדוח רווח והפסד.

הוצאות מימון כוללות הוצאות ריבית והצמדה על הלוואות ואגרות חוב, ומשינויים בהפרשות. עלויות האשראי נזקפות לדוח רווח והפסד לפי שיטת הריבית האפקטיבית.
רווחים והפסדים ממטבע חוץ ומכשירים מגדרים המוכרים ברווח והפסד מוצגים בנטו.

יג. מיסים נדחים

הוצאת מסים על הכנסה כוללת מסים שוטפים ונדחים. הוצאת מסים על הכנסה נזקפת לדוח רווח והפסד, אלא אם המס נובע מעסקה או פריטים אשר מוכרים ישירות בהון העצמי. במקרים אלו, הוצאת המסים על הכנסה נזקפת להון העצמי.

המס השוטף הינו סכום המס הצפוי להשתלם על ההכנסה החייבת במס לשנה, כשהוא מחושב לפי שיעורי המס החלים לפי החוק שבתוקף לתאריך המאזן, והכולל שינויים בתשלומי המס המתייחסים לשנים קודמות.

ההכרה במסים נדחים הינה בהתאם לשיטה המאזנית, בהתייחס להפרשים זמניים בין הערך בספרים של נכסים והתחייבויות לצורך דיווח כספי לבין ערכם לצרכי מסים. המסים הנדחים נמדדים לפי שיעורי המס הצפויים לחול על ההפרשים הזמניים במועד בו ימומשו, בהתבסס על החוקים שנחקקו נכון לתאריך המאזן. החברה מקזזת נכסי והתחייבות מסים נדחים במידה וקיימת זכות חוקית הניתנת לאכיפה לקיזוז נכסי והתחייבויות מסים שוטפים, והם מיוחסים לאותה הכנסה חייבת במס הממוסה על ידי אותה רשות מס באותה חברה נישומה, או בחברות שונות, אשר בכוונתן לסלק נכסי והתחייבות מסים שוטפים על בסיס נטו או שנכסי והתחייבויות המסים מיושבים סימולטנית.

נכס מס נדחה מוכר בספרים כאשר צפוי שבעתיד תהיה הכנסה חייבת, שכנגדה ניתן יהיה לנצל את ההפרשים הזמניים. נכסי המסים הנדחים נבדקים בכל תאריך מאזן, ובמידה ולא צפוי כי הטבות המס המתייחסות תתממשנה, הם מופחתים.

יד. רווח למניה

החברה מציגה נתוני רווח למניה בסיסי ומדולל לגבי הון המניות הרגילות שלה. הרווח הבסיסי למניה מחושב על ידי חלוקת הרווח או ההפסד המיוחסים לבעלי המניות הרגילות של החברה במספר הממוצע המשוקלל של המניות הרגילות שהיו במחזור במשך התקופה. הרווח המדולל למניה נקבע על ידי התאמת הרווח או ההפסד, המתייחס לבעלי המניות הרגילות והתאמת הממוצע המשוקלל של המניות הרגילות שבמחזור בגין ההשפעות של כל המניות הרגילות הפוטנציאליות המדללות, הכוללות אופציות למניות שהוענקו לעובדים.

טו. הוצאות פרסום

הוצאות פרסום מוכרות כהוצאה עם התהוותן.

טז. תקנים חדשים ופרשנויות שטרם אומצו

להלן מספר תקנים חדשים, תיקונים לתקנים קיימים והבהרות שעדיין אינם בתוקף, ולא יושמו בעת הכנת הדוחות הכספיים המאוחדים:

1. IAS 23, עלויות אשראי, מתוקן ("התקן"). התקן המתוקן שולל את האפשרות לזקוף את עלויות האשראי כהוצאה לדוח רווח והפסד ומחייב את הישות להוון לעלות הנכס עלויות אשראי הניתנות לייחוס באופן ישיר לרכישה, להקמה או לפיתוח של נכס כשיר. התקן המתוקן יחול על תקופות שנתיות אשר תחלנה ביום 1 בינואר 2009 או לאחר מכן ויהווה שינוי מדיניות חשבונאית של החברה. בהתאם להוראות המעבר, תיישם החברה את התקן המתוקן לגבי נכסים כשירים אשר היוון עלויות האשראי בגינם יחל במועד הכניסה לתוקף של התקן או לאחריו. החברה מעריכה כי ליישום התקן לא צפויה להיות השפעה מהותית על דוחותיה הכספיים של החברה.

באור 3 - עיקרי המדיניות החשבונאית (המשך)

טז. תקנים חדשים ופרשנויות שטרם אומצו (המשך)

2. IFRS 2, תשלום מבוסס מניות- תנאי הבשלה וביטולים, מתוקן ("התקן"). תיקון זה לתקן פורסם בינואר 2008, וייכנס לתוקף החל מתקופות שנתיות אשר תחלנה ביום 1 בינואר 2009 או לאחר מכן. התקן מגביל את ההגדרה של "תנאי הבשלה" לתנאים אשר כוללים דרישה מפורשת או משתמעת למתן שירותים. כלל התנאים האחרים הינם "תנאים שאינם תנאי הבשלה", אשר יש להתחשב בהם בעת קביעת השווי ההוגן של המכשירים ההוניים אשר הוענקו. במקרים שהמכשירים אשר הוענקו לא הבשילו, עקב אי עמידה ב"תנאי שאינו תנאי הבשלה" כאשר היכולת לעמוד בתנאי היא בשליטת הישות המעניקה או בישות המקבלת, יש להתחשב במקרים אלה כביטולים. החברה לא התקשרה בתוכניות של תשלומים מבוססי מניות ללא "תנאים שאינם תנאי הבשלה", ולפיכך אינה צופה השפעות מהותיות בדבר הטיפול החשבונאי בתשלומים מבוססי מניות.

3. IAS 1, הצגת דוחות כספיים, מתוקן ("התקן"). תיקון זה לתקן פורסם בספטמבר 2007, ויכנס לתוקף החל מתקופות שנתיות אשר תחלנה ביום 1 בינואר 2009 או לאחר מכן. התקן מפריד בין שינויים בהון על ידי בעלי החברה וגורמים אשר אינם בעלי החברה. הדוח על שינויים בהון יכלול רק פרטים בנוגע לעסקאות עם בעלי החברה, כאשר כלל השינויים בהון על ידי גורמים אשר אינם בעלי החברה יוצגו בשורה אחת. בנוסף, התקן מציג לראשונה את הדוח על הכנסה כוללת: דוח זה מציג את כלל ההוצאות והכנסות אשר הוכרו בדוח רווח והפסד, יחד עם כלל ההוצאות והכנסות אחרות אשר הוכרו, בדוח אחד כולל, או בשני דוחות נפרדים. כאשר יושם התיקון, החברה תציג שני דוחות נפרדים של דוח על ההכנסה הכוללת ובנוסף דוח על השינויים בהון.

4. IAS 32, מכשירים פיננסיים: הצגה ו-IAS 1, הצגת דוחות כספיים, מתוקנים ("התקנים"). תיקונים אלה לתקנים פורסמו בפברואר 2008, וייכנס לתוקף החל מתקופות שנתיות אשר תחלנה ביום 1 בינואר 2009 או לאחר מכן. התיקון ל-IAS 32 דורש שיש לסווג כהון מכשירים פיננסיים מסוימים הניתנים למימוש (Puttable), וכן מחויבויות הנוצרות אגב פירוק (Liquidation), בהתאם לעמידה בתנאים מסוימים. התיקון ל-IAS 1 דורש מתן גילוי מסוים בנוגע למכשירים פיננסים הניתנים למימוש (Puttable), אשר סווגו כהון. החברה מעריכה כי ליישום התקנים לא צפויה להיות השפעה מהותית על דוחותיה הכספיים.

5. IFRIC 13 תוכניות נאמנות לקוחות: IFRIC 13 מנחה כיצד חברות המעניקות ללקוחותיהן זיכויי מענק (לעיתים קרובות מכונים "נקודות") בעקבות רכישת מוצרים או שרותים, מכירות במחויבותן לספק מוצרים או שרותים בחינם או בהנחה אם וכאשר הלקוחות יפדו את הנקודות. הפרשנות מתבססת על ההנחה שהלקוחות משלמים עבור הנקודות כאשר הם רוכשים מוצרים או שרותים, ולפיכך יש להקצות חלק מההכנסה לנקודות. IFRIC 13 דורש מחברות לאמוד את השווי של הנקודות עבור הלקוחות ולהפחית סכום זה מההכנסות ולהכיר בו כהתחייבות עד למועד השלמת ההתחייבות בגין המענקים. על החברה חלה חובה ליישם את הפרשנות זו החל מהדוחות הכספיים המאוחדים לשנת 2009. החברה מעריכה כי ליישום פרשנות זו לא צפויה להיות השפעה מהותית על דוחותיה הכספיים.

6. IFRS 3 צירופי עסקים ו- IAS 27, דוחות כספיים מאוחדים ונפרדים, מתוקנים (להלן - "התקנים"). השינויים העיקריים בתקנים החדשים הינם: הכללת צירופי עסקים המערבים רק ישויות הדדיות (mutual entities) או מבוצעים באמצעות חוזה בלבד, שינוי מסוים בהגדרות עסק וצירוף עסקים, שינוי אופן מדידת הפריטים המועברים בצירוף העסקים, מתן שתי חלופות למדידת זכויות שאינן מקנות שליטה, שינוי הטיפול בעלויות עסקה, טיפול ברכישה בשלבים, הקצאת ההכנסה הכוללת בין כלל בעלי המניות, טיפול כעסקאות הוניות ברכישות או מכירות של זכויות תוך שימור שליטה, טיפול לפי שווי הוגן מלא בעסקאות המביאות לאובדן שליטה או להשגת שליטה, כך שההחזקה הנותרת לאחר אובדן השליטה תשתערך מול רווח והפסד ואילו ההשקעה המקורית בהשגת השליטה משתערכת גם היא לפי שווי הוגן לרווח והפסד והרחבת דרישות הגילוי. התקנים החדשים יחולו על תקופות שנתיות המתחילות ביום 1 ביולי 2009 או לאחר מכן. ניתן ליישם אותם ביישום מוקדם (רק את שניהם ביחד). IFRS 3 יחול על צירופי עסקים אשר התהוו החל ממועד תחילתו. IAS 27 יחול למפרע, למעט הקצאת ההכנסה הכוללת לבעלי המניות, הטיפול בשינויים בזכויות בחברה בת לאחר השגת השליטה, והטיפול באובדן שליטה בחברה בת, אשר יושמו החל ממועד תחילתו.

7. פריטים הכשירים לגידור (תיקון ל-IAS 39, מכשירים פיננסיים: הכרה ומדידה) מציג הכוונה ליישום על מנת להמחיש כיצד העקרונות של חשבונאות גידור יושמו ביעוד של 1) סיכון חד צדדי בפריט מגודר 2) מרכיב אינפלציוני בפריט מגודר. יש ליישם את התיקון, בדרך של יישום למפרע, לתקופות שנתיות המתחילות ביום 1 ביולי 2009, או לאחריו. ליישום התיקון לא צפויה להיות השפעה על דוחותיה הכספיים של החברה.

8. IFRS 8, מגזרי פעילות מציג את "גישת ההנהלה" לדיווח מגזרי. IFRS 8, שיכנס לתוקף בדוחות הכספיים השנתיים של החברה בשנת 2009, קובע כי הדיווח המגזרי יעשה בהתבסס על מתכונת הדיווח הפנימית למקבל ההחלטות התפעוליות הראשי בחברה על מנת להעריך את ביצועי כל אחד מהמגזרים ולהקצות להם משאבים. כיום, החברה אינה מציגה מידע מגזרי. ליישום התקן לא צפויה להיות השפעה מהותית על דוחותיה הכספיים של החברה.

באור 4 - קביעת שווי הוגן

כחלק מכללי המדיניות החשבונאית ודרישות הגילוי, נדרשת החברה לקבוע את השווי ההוגן של נכסים והתחייבויות פיננסיים ושאינם פיננסיים. ערכי השווי ההוגן נקבעו לצרכי מדידה ו/או גילוי על בסיס השיטות המתוארות להלן. מידע נוסף לגבי ההנחות ששימשו בקביעת ערכי השווי ההוגן ניתן בביאורים המתייחסים לאותו נכס או התחייבות.

א. לקוחות וחייבים אחרים
השווי ההוגן של לקוחות וחייבים אחרים נקבע על בסיס הערך הנוכחי של תזרימי המזומנים העתידיים, המהוונים על פי שיעור ריבית השוק למועד הדיווח.

ב. נגזרים
השווי ההוגן של חוזי אקדמה (Forward) על מטבע חוץ נאמד כהפרש בין מחיר ה- Forward הנקוב בחוזה לבין מחיר ה-Forward הנוכחי בגין יתרת התקופה של החוזה עד לפדיון, תוך שימוש בשיעור ריבית (בהתבסס על אגרות חוב ממשלתיות).

השווי ההוגן של חוזים להחלפת ריבית (Swaps) מבוסס על ציטוטים של ברוקרים. סבירות הציטוטים נבחנת באמצעות היוון אומדן תזרימי המזומנים העתידיים על בסיס התנאים ואורך התקופה עד לפדיון של כל חוזה ותוך שימוש בשיעורי ריבית שוק של מכשיר דומה למועד המדידה.

ג. התחייבויות פיננסיות שאינן נגזרות
השווי ההוגן, אשר נקבע לצורך מתן גילוי, מחושב על בסיס הערך הנוכחי של תזרימי המזומנים העתידיים בגין מרכיב הקרן והריבית, המהוונים על פי שיעור ריבית השוק למועד הדיווח.

ד. עסקאות תשלום מבוסס מניות
השווי ההוגן של כתבי אופציה לעובדים נמדד באמצעות מודל בלק ושולס. הנחות המודל כוללות את מחיר המניה למועד המדידה, מחיר המימוש של המכשיר, תנודתיות צפויה (על בסיס ממוצע משוקלל של תנודתיות היסטורית המותאם לשינויים צפויים בעקבות מידע זמין לציבור), הממוצע המשוקלל של אורך החיים הצפוי של המכשירים (על בסיס ניסיון העבר וההתנהגות הכללית של המחזיקים בכתב האופציה), דיבידנדים צפויים ושיעור ריבית חסרת סיכון (על בסיס אגרות חוב ממשלתיות). תנאי שירות ותנאי ביצוע שאינם תנאי שוק אינם נלקחים בחשבון בעת קביעת השווי ההוגן.

באור 5 - ניהול סיכונים פיננסיים

במהלך העסקים הרגיל, החברה חשופה לסיכוני אשראי, סיכוני נזילות וסיכוני שוק. מטרתו של ניהול הסיכונים בחברה להגדיר ולעקוב באופן שוטף אחר הסיכונים ולמזער את ההשפעות האפשריות הנובעות מחשיפה זו, וזאת בהתאם להערכות ותחזיות בדבר הגורמים המשפיעים על הסיכונים. מדיניות החברה לגדר באופן חלקי את החשיפה מתנודות בשערי מטבע חוץ ושערי הריבית. בנוסף ראה באור 18.

סיכון אשראי
סיכון אשראי הוא סיכון להפסד כספי שיגרם לחברה באם לקוח או צד שכנגד למכשיר פיננסי לא יעמוד בהתחייבויותיו החוזיות, והוא נובע בעיקר מחובות של לקוחות וחייבים אחרים. להנהלה מדיניות אשראי והיא מקיימת מעקב שוטף אחר חשיפת החברה לסיכוני אשראי. החברה מבצעת הערכת אשראי בגין לקוחות מעל לסכום מסוים ודורשת ביטחונות כנגדם. הנהלת החברה עוקבת באופן שוטף אחר חובות הלקוחות ובדוחות הכספיים כוללת הפרשות לחובות מסופקים המשקפות בצורה נאותה את ההפסד הגלום בחובות שגבייתם מוטלת בספק.

המזומנים ושווי המזומנים של החברה מופקדים במוסדות הבנקאיים המרכזיים בישראל.

לתאריך הדיווח לא קיים ריכוז משמעותי של סיכוני אשראי. החשיפה המרבית לסיכון אשראי מיוצגת על ידי הערך בספרים של כל נכס פיננסי, כולל נגזרים במאזן. מכשירים פיננסיים שבאופן פוטנציאלי מהווים סיכון אשראי לחברה הם יתרות לקוחות. סיכון האשראי בגין יתרות הלקוחות הינו מוגבל בגלל הרכב בסיס הלקוחות הכולל מספר רב של לקוחות בודדים ועסקים.

סיכון נזילות
סיכון נזילות הוא הסיכון שהחברה לא תוכל לעמוד במחויבויותיה הפיננסיות בהגיע מועד תשלומן. מדיניות החברה לניהול הנזילות שלה היא להבטיח, ככל הניתן, שתמיד תהיה לה נזילות מספקת למילוי התחייבויותיה במועד, בתנאים רגילים ובתנאי לחץ מבלי שיגרמו לה הפסדים בלתי רצויים או פגיעה במוניטין. מדיניות החברה היא לוודא את קיומן של רמות מספקות של מזומנים ושווה מזומנים על פי דרישה לתשלום של ההוצאות התפעוליות, כולל סכומים הדרושים לעמידה בהתחייבויות הפיננסיות.

באור 5 - ניהול סיכונים פיננסיים (המשך)

סיכוני שוק
סיכון שוק הוא הסיכון ששינויים במחירי שוק, כגון שערי חליפין של מטבע חוץ ושיעורי ריבית, ישפיעו על הכנסות החברה או על ערך החזקותיה במכשירים פיננסיים. מטרת ניהול סיכוני השוק הינה לנהל ולפקח על החשיפה לסיכוני שוק במסגרת פרמטרים מקובלים, תוך כדי מיקסום התשואה לסיכון.

<u>סיכון ריבית</u>
החברה חשופה לתנודתיות בשיעור הריבית, כולל שינויים במדד המחירים לצרכן ("מדד"), מכיוון שרוב הלוואותיה צמודות למדד. במסגרת מדיניות ניהול הסיכונים, החברה ביצעה עסקאות פורוורד המגדרות באופן חלקי את החשיפה לשינויים במדד.

<u>סיכון מטבע</u>
החברה חשופה לסיכון מטבע בגין הכנסות תפעוליות ותזרימי מזומנים, בעיקר בשל תשלומים עבור רכישות מכשירים סלולאריים וציוד רשת ופעילות שירותי הנדידה. כמו-כן, החברה מנהלת חשבונות במטבע חוץ השונים ממטבע העיקרי של החברה, בעיקר בדולר ואירו. במסגרת מדיניות ניהול הסיכונים, החברה מבצעת עסקאות פורוורד ואופציות על מנת לגדר באופן חלקי את החשיפה מתנודתיות בשערי החליפין.

<u>ניהול הון</u>
ניהול ההון של החברה נועד להבטיח מבנה הון מבוסס ויעיל הלוקח בחשבון, בין שאר הדברים, את הגורמים הבאים:
יחס מינוף התומך בצרכי תזרים המזומנים של החברה בהתייחס לפוטנציאל יצור תזרימי המזומנים, כמו כן תומך במדיניות הדיבידנדים של החברה, וזאת תוך שמירה על יחס חוב ל-EBITDA העומד בסטנדרטים של הענף. החברה מתייחסת ליחס החוב ל-EBITDA כגורם מדידה חשוב למשקיעים, אנליסטים וסוכנויות דירוג. יחס זה אינו מונח חשבונאי ואינו נתמך על ידי תקני דיווח כספי בינלאומיים (IFRS), אי לכך הגדרתו וחישובו עשויים להיות שונים בין חברה אחת לאחרת. חוב החברה כולל אגרות חוב לזמן קצר ולזמן ארוך הנסחרות בבורסה לניירות ערך בתל אביב ומדורגות בדירוג AA על ידי מעלות שהינה חברה בת של S&P.

באור 6 - מזומנים ושווי מזומנים

ההרכב:

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
יתרות שוטפות בבנקים	**18**	10
פקדונות לפי דרישה	**257**	901
	275	911

חשיפת החברה לסיכון שיעור ריבית וניתוח רגישות לנכסים ולהתחייבויות הפיננסיים מפורטת בבאור 18.

באור 7 - לקוחות וחייבים

ההרכב:

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
לקוחות		
חובות פתוחים	423	387
המחאות לגביה ושוברי כרטיסי אשראי	187	158
הכנסות לקבל	202	214
חלויות שוטפות של לקוחות לזמן ארוך	666	626
	1,478	1,385
חייבים ויתרות חובה		
הוצאות מראש	43	49
מכשירים פיננסיים נגזרים	68	44
אחרים	1	3
	112	96
שוטף	1,590	1,481
לא שוטף	602	575
	2,192	2,056

החברה חשופה לסיכון אשראי ולהפסדים בגין ירידת ערך המתייחסים ללקוחות וחייבים אחרים, כפי שמפורט בבאור 18.

באור 8 - מלאי

א. ההרכב:

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
טלפונים סלולאריים	83	195
אביזרים	13	18
חלקי חילוף	23	32
	119	245

ב. מלאי טלפונים סלולאריים, אביזרים וחלקי חילוף ליום 31 בדצמבר 2008 מוצגים בניכוי הפרשה לירידת ערך בסך 6 מיליון ש"ח (31 בדצמבר 2007 – 2 מיליון ש"ח).

באור 9 - רכוש קבוע, נטו

א. ההרכב:

	רשת תקשורת	בקרת הרשת וציוד בדיקה	כלי רכב	מחשבים, ריהוט וציוד משרדי	שיפורים במושכר	סך הכל
	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
עלות						
יתרה ליום 1 בינואר 2007	7,454	261	16	1,173	176	9,080
תוספות	324	23	2	63	15	427
גריעות	(33)	(1)	(2)	(285)	-	(321)
יתרה ליום 31 בדצמבר 2007	7,745	283	16	951	191	9,186
תוספות	291	27	-	66	15	399
גריעות	(2,364)*	-	(2)	(197)	-	(2,563)
יתרה ליום 31 בדצמבר 2008	5,672	310	14	820	206	7,022
פחת נצבר						
יתרה ליום 1 בינואר 2007	5,347	210	6	881	104	6,548
פחת השנה	473	18	2	108	15	616
גריעת פחת	(28)	-	(1)	(284)	-	(313)
יתרה ליום 31 בדצמבר 2007	5,792	228	7	705	119	6,851
פחת השנה	444	16	2	87	16	565
גריעת פחת	(2,356)*	-	(2)	(195)	-	(2,553)
יתרה ליום 31 בדצמבר 2008	3,880	244	7	597	135	4,863
יתרה מופחתת ליום 1 בינואר 2007	2,107	51	10	292	72	2,532
יתרה מופחתת ליום 31 בדצמבר 2007	1,953	55	9	246	72	2,335
יתרה מופחתת ליום 31 בדצמבר 2008	1,792	66	7	223	71	2,159

* בשנת 2008 החברה גרעה נכסים מסוימים השייכים לרשת התקשורת שלא היו בשימוש.

העלות ברוטו בגין נכסי רכוש קבוע שהופחתו במלואם ועדיין נמצאים בשימוש ליום 31 בדצמבר 2008 היא 2,640 מיליון ש"ח.

באור 10 - נכסים בלתי מוחשיים, נטו

א. ההרכב:

	רשיונות	מערכות מידע	תוכנות	הוצאות נדחות	סך הכל
	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
עלות					
יתרה ליום 1 בינואר 2007	550	459	221	9	1,239
תוספות	-	87	38	21	146
גריעות	-	(7)	-	(9)	(16)
יתרה ליום 31 בדצמבר 2007	550	539	259	21	1,369
תוספות	-	67	44	60	171
גריעות	-	-	-	-	-
יתרה ליום 31 בדצמבר 2008	550	606	303	81	1,540
פחת שנצבר					
יתרה ליום 1 בינואר 2007	92	308	135	9	544
הפחתות השנה	39	73	42	2	156
גריעת הפחתות	-	(7)	-	(9)	(16)
יתרה ליום 31 בדצמבר 2007	131	374	177	2	684
הפחתות השנה	35	68	42	36	181
גריעת הפחתות	-	-	-	-	-
יתרה ליום 31 בדצמבר 2008	166	442	219	38	865
יתרה מופחתת ליום 1 בינואר 2007	458	151	86	-	695
יתרה מופחתת ליום 31 בדצמבר 2007	419	165	82	19	685
יתרה מופחתת ליום 31 בדצמבר 2008	384	164	84	43	675

באור 11 - ספקים והוצאות לשלם

ההרכב:

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
ספקים	277	443
הוצאות לשלם	400	510
	677	953

באור 12 - הפרשות

ההרכב:

	סילוק נכסים	תביעות משפטיות	התחייבויות חוזיות אחרות	אחרות	סך הכל
	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
יתרה ליום 1 בינואר 2008	14	-	87	4	105
הפרשות שנוצרו במהלך התקופה	2	10	-	-	12
הפרשות שבוטלו במהלך התקופה	-	-	(54)	-	(54)
השפעת חלוף הזמן	1	-	-	-	1
יתרה ליום 31 בדצמבר 2008	17	10	33	4	64
בלתי שוטף	17	-	-	-	17
שוטף	-	10	33	4	47
	17	10	33	4	64

הפרשות בגין סילוק נכסים
החברה נדרשת להכיר בעלויות מסוימות לפרוק נכסים ולשיקום אתרים, הוצאות פירוק אלו מחושבות בהתבסס על שווי הפירוק בשנה הנוכחית תוך התחשבות בהערכה הטובה ביותר לשינויים עתידיים של מחירים אינפלציה וכדומה, ומהוונות בריבית חסרת סיכון. תחזית לגבי הערכה של עלויות אלו מתוקנות במידה וחל שינוי בתקנות או בגין שינויים טכנולוגיים.

הפרשות בגין תביעות משפטיות
החברה מעורבת במספר נושאים משפטיים ומחלוקות אחרות עם צדדים שלישיים. ההנהלה לאחר קבלת יעוץ משפטי יצרה הפרשות לאחר בחינת העובדות לגבי כל מקרה לגופו. לא ניתן לקבוע בצורה מהימנה את העיתוי של תזרים המזומנים שקשור לתביעות אלו. לפרטים נוספים בנוגע לתביעות משפטיות כנגד החברה, ראה באור 28.

הפרשות בגין התחייבויות חוזיות אחרות
הפרשות בגין התחייבויות חוזיות אחרות כוללות מספר התחייבויות הנובעות מהתחייבות חוזית או חקיקה שבהם יש מרכיב של אי ודאות גבוהה ביחס לעיתוי ולסכומים הנדרשים לצורך סיום ההתחייבות.

הפרשות בגין אחרות
כולל הפרשות בגין אחריות ובנוסף התחייבויות אחרות שסכומם הפרטני בגין כל תביעה אינו מהותי.

באור 13 - זכאים ויתרות זכות, לרבות נגזרים

ההרכב:

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
עובדים והתחייבויות נלוות	121	126
מוסדות ממשלתיים	45	34
הוצאות לשלם	118	91
הכנסות מראש	47	39
מכשירים פיננסיים נגזרים	54	94
	385	384

באור 14 – הלוואות לזמן ארוך מתאגידים בנקאיים

באור זה נותן מידע לגבי התנאים החוזיים של הלוואות ואשראי נושאי ריבית, אשר נמדדים בעלות מופחתת. מידע נוסף בדבר החשיפה של החברה לסיכוני ריבית, מטבע חוץ ונזילות, ניתן בבאור 18.

א. ההרכב:

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
התחייבויות לזמן ארוך		
הלוואות מבנקים	-	343
אגרות חוב	3,401	2,983
	3,401	3,326
התחייבויות שוטפות		
חלויות שוטפות של הלוואות מבנקים	-	232
חלויות שוטפות של אגרות חוב	329	121
	329	353

תנאים וטבלת החזר חוב

תנאי החוב ותקופות ההחזר מפורטות בטבלה הבאה:

				31 בדצמבר 2008 מיליוני ש"ח		31 בדצמבר 2007 מיליוני ש"ח	
	מטבע	שיעור ריבית נומינלית	שנת הפדיון	ערך נקוב	ערך בספרים	ערך נקוב	ערך בספרים
הלוואות מבנקים	שקל	טלבור + 0.8%	2010	-	-	253	251
הלוואות מבנקים	דולר	ליבור + 0.8%	2010	-	-	327	324
אגרות חוב סדרה א- צמוד מדד	שקל	5.00%	2012	947	1,012	1,065	1,090
אגרות חוב סדרה ב- צמוד מדד	שקל	5.30%	2017	925	992	925	949
אגרות חוב סדרה ג- צמוד מדד	שקל	4.60%	2013	326	341	245	243
אגרות חוב סדרה ד- צמוד מדד	שקל	5.19%	2017	1,321	1,385	827	822
סך התחייבויות נושאות ריבית				3,519	3,730	3,642	3,679

באור 14 – הלוואות לזמן ארוך מתאגידים בנקאיים (המשך)

הסכם מימון

בחודש מרץ 2006 התקשרה החברה בהסכם מימון בלתי מובטח עם סינדיקט של מספר בנקים ישראליים ובינלאומיים אשר אורגן על ידי Citibank, N.A. ו- Citibank International plc, למתן הלוואה בסך 280 מיליון דולר וקו אשראי בסך של עד 70 מיליון דולר. ביום 10 באפריל 2006 המירה החברה חלק מההלוואה הדולרית בהלוואה שקלית. החברה החזירה סכום של 137.5 מיליון דולר (המורכב מ- 110 מיליון דולר על חשבון ההלוואה ו- 27.5 מיליון דולר על חשבון קו האשראי) ובמקומו קיבלה סכום של כ- 633 מיליון ש"ח (המתחלק לכ- 506 מיליון ש"ח על חשבון הלוואה וכ- 127 מיליון ש"ח על חשבון קו האשראי). בחודש נובמבר 2007, ביצעה החברה מיוזמתה פירעון מוקדם חלקי של 50% מיתרת ההלוואה, בסך של כ-140 מיליון דולר (המורכב מ- 85 מיליון דולר הנקוב בדולר ארה"ב וכ-253 מיליון ש"ח הנקוב בשקלים). נכון ליום 31 בדצמבר 2007 יתרת ההלוואה הינה בסך של כ-140 מיליון דולר (המורכבת מסך של 85 מיליון דולר הנקוב בדולר ארה"ב וסך של כ- 253 מיליון ש"ח הנקוב בשקלים).

נכון ליום 31 בדצמבר 2007 הריבית הממוצעת על יתרת ההלוואות הדולריות הינה ריבית הליבור לשלושה חודשים בתוספת 0.80% לשנה, והריבית הממוצעת על יתרת ההלוואות השקליות הינה ריבית התלבור לשלושה חודשים בתוספת 0.80% ובתוספת 0.20% לשנה.

ביום 10 במרס 2008, החברה ביצעה פרעון מוקדם וולנטרי של יתרת ההלוואה שניתנה לחברה במסגרת הסכם המימון, בסך של 140 מיליון דולר ארה"ב (המורכב מ- 85 מיליון דולר ארה"ב הנקוב בדולרים וכ-253 מיליון ש"ח הנקוב בש"ח), שבעקבותיו הסתיימו הסכם המימון וההתניות המגבילות בגינו.

אגרות חוב

בחודש דצמבר 2005 הנפיקה החברה אגרות חוב (סדרה א') בסך של 1,037 מיליון ש"ח ע.נ. למשקיעים מוסדיים תמורת ערכן הנקוב. אגרות החוב עומדות לפרעון ב- 9 תשלומים חצי שנתיים שווים ביום 5 ביולי של כל אחת מהשנים 2008 ועד 2012 (ועד בכלל) וביום 5 בינואר של כל אחת מהשנים 2009 ועד 2012 (ועד בכלל). אגרות החוב נושאות ריבית שנתית בשיעור של 5.0%. ריבית אגרות החוב תיפרע ביום 5 בינואר של כל אחת מהשנים 2007 עד 2012 (ועד בכלל) וביום 5 ביולי של כל אחת מהשנים 2006 ועד 2012 (ועד בכלל) בעד התקופה של ששת החודשים שהסתיימו ביום הקודם לכל מועד כאמור. אגרות החוב צמודות (קרן וריבית) למדד המחירים לצרכן בגין חודש נובמבר 2005.

בחודש דצמבר 2005 הנפיקה החברה אגרות חוב (סדרה ב') בסך של 715 מיליון ש"ח ע.נ למשקיעים מוסדיים תמורת ערכן הנקוב. אגרות חוב עומדות לפרעון ב- 5 תשלומים שנתיים שווים ביום 5 בינואר של כל אחת מהשנים 2013 ועד 2017 (ועד בכלל). אגרות החוב נושאות ריבית שנתית בשיעור של 5.3%. ריבית אגרות החוב תשולם ביום 5 בינואר של כל אחת מהשנים 2007 עד 2017 (ועד בכלל) בעד התקופה של שנים עשר חודשים שהסתיימו ביום הקודם לכל מועד כאמור. אגרות החוב צמודות (קרן וריבית) למדד המחירים לצרכן בגין חודש נובמבר 2005.

ביום 29 במאי 2006, ביצעה החברה הנפקה למשקיעים מוסדיים בהיקף של 28 מיליון ש"ח ערך נקוב של אגרות חוב נוספות מסדרה א' הקיימת של החברה בתמורה לכ-29 מיליון ש"ח, ו-210 מיליון ש"ח ערך נקוב של אגרות חוב נוספות מסדרה ב' הקיימת של החברה בתמורה לכ-221 מיליון ש"ח.

בחודש אוקטובר 2007 הנפיקה החברה לציבור אגרות חוב (סדרה ג') בסך של 245 מיליון ש"ח ע.נ בתמורה לכ-244 מיליון ש"ח נטו. אגרות חוב עומדות לפרעון ב- 9 תשלומים חצי שנתיים שווים בימים 1 במרס ו-1 בספטמבר של כל אחת מהשנים 2009 ועד 2012, וב-1 במרס 2013. אגרות החוב נושאות ריבית שנתית בשיעור של 4.60%. ריבית אגרות החוב תשולם בתשלומים חצי שנתיים בימים 1 במרס ו-1 בספטמבר של כל אחת מהשנים 2008 ועד 2012 וב-1 במרס 2013. אגרות החוב צמודות (קרן וריבית) למדד המחירים לצרכן בגין חודש אוגוסט 2007.

בחודש אוקטובר 2007 הנפיקה החברה לציבור אגרות חוב (סדרה ד') בסך של 827 מיליון ש"ח ע.נ בתמורה לכ-823 מיליון ש"ח נטו. אגרות חוב עומדות לפרעון ב- 5 תשלומים שנתיים שווים ביום 1 ביולי של כל אחת מהשנים 2013 ועד 2017. אגרות החוב נושאות ריבית שנתית בשיעור של 5.19%. ריבית אגרות החוב תשולם ביום 1 ביולי של כל אחת מהשנים 2008 עד 2017. אגרות החוב צמודות (קרן וריבית) למדד המחירים לצרכן בגין חודש אוגוסט 2007.

בחודש פברואר 2008, הנפיקה החברה, בהנפקה פרטית למשקיעים מוסדיים אגרות חוב נוספות מסדרה ג' בסכום של 81 מיליון ש"ח ע.נ., ואגרות חוב נוספות מסדרה ד' בסכום של 494 מיליון ש"ח ע.נ., כנגד תמורה כוללת של 600 מיליון ש"ח.

באור 15 - התחייבות בשל סיום יחסי עובד-מעביד, נטו

א. התחייבות החברה בגין סיום יחסי עובד-מעביד בגין עובדיה הישראלים מחושבת על פי החוק הישראלי בנוגע לפיצויי פיטורין. התחייבות החברה מכוסה במלואה על ידי הפקדות חודשיות בקרנות פיצויים, פוליסות ביטוח וההתחייבות במאזן. בגין מרבית עובדי החברה התשלומים לקרנות הפנסיה ולחברות הביטוח פוטרות את החברה ממחויבותה לעובדים בהתאם לסעיף 14 לחוק פיצויי פיטורין. הסכומים שנצברו בקרנות פנסיה וחברות ביטוח אינם תחת השליטה או הניהול של החברה, ובהתאם לכך גם סכומים אלה וגם ההתחייבות לפיצויי פיטורין בגינם אינם מוצגים במאזן. התחייבויות החברה על פי החוק והסכמי עבודה, לתשלום פיצויי פיטורין לעובדים אשר אינם מכוסים על ידי תוכניות פנסיה וביטוח כאמור, הסתכמו בסך של 1 ו-3 מיליון ש"ח נכון ליום 31 בדצמבר 2008 ו-2007, בהתאמה, כמופיע במאזן החברה תחת סעיף זכאים ויתרות זכות לזמן ארוך. החישוב בגין התחייבות זו מבוסס על רכיבי השכר שלהערכת ההנהלה יוצרים את המחויבות לתשלום בגין סיום יחסי עובד-מעביד.

ב. הוצאות בגין סיום יחסי עובד- מעביד עבור השנה שהסתיימה ביום 31 בדצמבר 2008 ו-2007 הסתכמו לכ-29 מיליון ש"ח ולכ-28 מיליון ש"ח, בהתאמה.

ג. בחודש ינואר 2008, בהתאם לצו הרחבה שהוצא על-ידי משרד התעשייה, המסחר ותעסוקה, מחויבים כל המעסיקים הישראלים להפקיד לתוכנית פנסיה סכומים השווים לאחוז מסוים משכר העובד, לכל העובדים, לאחר תקופת העסקה מינימאלית. החברה פועלת בהתאם לחובה זו. בהתאם לצו החדש, עובדים נוספים זכאים להפקדה לתוכנית פנסיה, אשר תגדל עד לשיעור של 5% משכר העובד בשנת 2013, בנוסף להפקדה זהה עבור סיום יחסי עובד-מעביד. החברה אינה צופה שלצו החדש תהיה השפעה מהותית על הדוחות הכספיים.

באור 16 - הון עצמי

שינויים נוספים בהון העצמי

	הון מניות מיליוני ש"ח	קרן הון בגין עסקאות גידור מיליוני ש"ח	עודפים מיליוני ש"ח	סך הכל מיליוני ש"ח
יתרה ליום 1 בינואר 2007	1	(24)	620	597
הכנסות והוצאות שהוכרו	-	(9)	875	866
תשלומים מבוססי מניות	-	-	29	29
דיבידנד ששולם	-	-	(655)	(655)
יתרה ליום 31 בדצמבר 2007	**1**	**(33)**	**869**	**837**
הכנסות והוצאות שהוכרו	-	22	985	1,007
תשלומים מבוססי מניות	-	-	28	28
דיבידנד ששולם	-	-	(1,530)	(1,530)
יתרה ליום 31 בדצמבר 2008	**1**	**(11)**	**352**	**342**

באור 16 - הון עצמי (המשך)

הון מניות

	2008 ש"ח	2007 ש"ח
הון מניות מונפק ליום 1 בינואר	975,047	975,000
השפעת אופציות שמומשו למניות	8,446	47
הון מניות מונפק ליום 31 בדצמבר	983,493	975,047

מניות רגילות 0.01 ש"ח ע.נ

ביום 31 בדצמבר 2008, הון המניות הרשום כלל סך של 300 מיליון מניות (31 בדצמבר 2007- 300 מיליון). מחזיקי המניות הרגילות זכאים לקבל דיבידנד לכשמוכרז.
החישוב בגין רווח למניה בסיסי הסתמך על הרווח שאותו ניתן לייחס לבעלי המניות הרגילים ומספר המניות המשוקלל שהוחזקו במהלך השנה. החישוב בגין רווח למניה מדולל הסתמך על הרווח שאותו ניתן לייחס לבעלי המניות הרגילים ובתוספת של המניות שיתווספו כתוצאה ממימוש כל האופציות.

קרן גידור

קרן הגידור כוללת את החלק האפקטיבי של השינוי הנצבר נטו בשווי ההוגן של מכשירים המגדרים את תזרים המזומנים והמתייחסים לעסקאות שגודרו, וטרם התרחשו.

דיבידנד

הדיבידנדים הבאים הוכרזו ושולמו על ידי החברה:

	2008 מיליוני ש"ח
7.18 ש"ח למניה רגילה, שולם באפריל 2008	700
2.65 ש"ח למניה רגילה, שולם ביוני 2008	258
2.76 ש"ח למניה רגילה, שולם בספטמבר 2008	270
3.07 ש"ח למניה רגילה, שולם בנובמבר 2008	302
	1,530

	2007 מיליוני ש"ח
2.03 ש"ח למניה רגילה, שולם ביוני 2007	198
2.06 ש"ח למניה רגילה, שולם בספטמבר 2007	201
2.63 ש"ח למניה רגילה, שולם בנובמבר 2007	256
	655

ביום 1 במרץ 2009, לאחר תאריך המאזן, הכריז דירקטוריון החברה על חלוקת דיבידנד במזומן בסך של 2.75 ש"ח למניה ובסך כולל של כ-270 מיליון ש"ח, שישולם ביום 30 במרץ 2009, למחזיקים במניות החברה שיהיו רשומים במרשם בעלי המניות של החברה בסיום יום המסחר בבורסת ניו יורק (NYSE) בתאריך 16 במרץ 2009.

באור 17 - תשלומים מבוססי מניות

א. בחודש ספטמבר 2006, אישר דירקטוריון החברה תוכנית הטבות מבוססת מניות (להלן "התוכנית") לטובת עובדים, דירקטורים, יועצים וקבלני משנה של החברה, וכן של צדדים קשורים לחברה. התוכנית כללה מאגר התחלתי של 2,500,000 מניות הניתנות להקצאה כאופציות או כמניות חסומות.

ב. במהלך החודשים אוקטובר ונובמבר 2006, העניקה החברה אופציות לרכישת כמות מצטברת של 2,414,143 מניות רגילות במחיר מימוש של 12.60 דולר ארה"ב למניה. מתוך האופציות שהוענקו, כמות של 450,000 אופציות הוענקה ליו"ר הדירקטוריון של החברה, וכמות נוספת של 450,000 אופציות הוענקה למנכ"ל החברה. יתרת האופציות הוענקה לעובדים בכירים בחברה. כתבי אופציות שלא ימומשו בתום שש שנים ממועד הענקתם, יפקעו.

בחודש מרס 2007, העניקה החברה לעובדים בכירים בחברה אופציות לרכישת כמות מצטברת של 30,786 מניות רגילות במחיר מימוש של 12.60 דולר ארה"ב למניה, תחת תנאי התוכנית.

כתוצאה מהתאמות עקב חלוקת דיבידנדים, הותאם מחיר המימוש של כלל אופציות אלו ל-6.49 דולר ארה"ב למניה נכון ליום 31 בדצמבר 2008 (10.93 דולר ארה"ב למניה נכון ליום 31 בדצמבר 2007).

ג. בחודש אוגוסט 2008, העניקה החברה לעובדים בכירים אופציות לרכישת כמות מצטברת של 27,500 מניות רגילות במחיר מימוש של 25 דולר ארה"ב למניה, תחת תנאי התוכנית. כתוצאה מתיקון מנגנון הדיבידנד, בוצעה התאמה במחיר המימוש למניה ל-23.43 דולר ארה"ב למניה נכון ליום 31 בדצמבר 2008.

האופציות שהוענקו במסגרת התוכנית מובשלות במשך תקופה של ארבע שנים, בנוסף התוכנית המקורית כללה סעיף האצה של תקופת ההבשלה. סעיף ההקצאה קבע כי, כאשר החזקות דסק"ש במניות החברה ירדו מתחת ל-50.01% כל האופציות שטרם הובשלו יובשלו מידית. בשנת 2008 תיקנה החברה את תנאי 50.01% לתנאי לפיו דסק"ש חדלה משליטה בחברה (כפי שמוגדר בחוק ניירות ערך, 1968). החברה שינתה את תנאי ההבשלה באופן שנחשב כלא מטיב עם העובדים. בהתאם לתוכנית המקורית, הירידה של דסק"ש באחוזי ההחזקה ל-46.90% גרם להאצה בהכרה בכל יתרת ההוצאות המתייחסות לאופציות במהלך 2008.

מועד הענקה/ עובדים זכאים	מספר המכשירים באלפים	תנאי ההבשלה	משך החיים החוזיים של האופציות
הענקת אופציות למנהלים ועובדים בכירים בחודשים אוקטובר- נובמבר 2006	2,414	ארבעה תשלומים שווים למשך ארבע שנות עבודה	6 שנים
הענקת אופציות לעובדים בכירים בחודש מרץ 2007	31	ארבעה תשלומים שווים למשך ארבע שנות עבודה	6 שנים
הענקת אופציות לעובדים בכירים בחודש אוגוסט 2008	27	ארבעה תשלומים שווים למשך ארבע שנות עבודה	6 שנים

סך ההוצאה בגין ההטבה שמיוחסת לאופציות שהוענקו במהלך אוקטובר- נובמבר 2006 ומרץ 2007 הינה בסך של כ-57 מיליון ש"ח. בשנת 2008, נרשמו הוצאות בסך 28 מיליון ש"ח (2007- 29 מיליון ש"ח).

באור 17 – תשלומים מבוססי מניות (המשך)

השינויים ביתרות האופציות היו כדלקמן:

	2008		2007	
	מספר האופציות	ממוצע משוקלל של מחיר המימוש (דולר ארה"ב)	מספר אופציות	ממוצע משוקלל של מחיר המימוש (דולר ארה"ב)
יתרה ליום 1 בינואר	2,396,896	10.93	2,414,143	10.93
הוענקו במהלך השנה	27,500	24.09	30,786	10.93
חולטו במהלך השנה	(4,125)	7.78	(40,078)	12.02
מומשו במהלך השנה	(1,145,408)	7.292	(7,955)	30.18
יתרת האופציות ליום 31 בדצמבר	1,274,863	6.857	2,396,896	10.93
יתרת האופציות הניתנות למימוש ליום 31 בדצמבר	42,282	6.492	588,270	10.93

יתרת משך החיים הממוצע המשוקלל של יתרת האופציות נכון ליום 31 בדצמבר 2008, הינו 3 שנים ו-10 חודשים (ליום 31 בדצמבר 2007, הינו 4 שנים ו-10 חודשים).

הממוצע המשוקלל של מחיר אופציה ביום המימוש של אופציה הניתנת למימוש בשנת 2008 הוא 28.19 דולר ארה"ב (בשנת 2007- 29.17 דולר ארה"ב).

שווי הוגן של אופציות וההנחות:

	2008	2007
שווי הוגן במועד ההענקה	$11.76	$5.76
פרמטרים שהובאו בחישוב שווי הוגן:		
מחיר מימוש	$25	$12.6
תנודתיות צפויה (ממוצע משוקלל)	24%	26.69%
משך החיים של האופציה (ממוצע משוקלל צפוי)	4 שנים	4.25 שנים
שיעור ריבית חסרת סיכון	3.06%	5.01%

באור 18 – מכשירים פיננסיים

סיכון אשראי

חשיפה לסיכון אשראי
הערך בספרים של הנכסים הפיננסיים מייצג את חשיפת האשראי המרבית. החשיפה המרבית לסיכון אשראי בתאריך המאזן, היתה כדלקמן:

	ליום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
לקוחות, כולל יתרות לזמן ארוך	2,019	1,862
הלוואות וחייבים אחרים, כולל יתרות לזמן ארוך	50	59
מזומנים ושווי מזומנים	275	911
חוזי החלפת ריבית	-	5
חוזי אקדמה על שערי חליפין	41	15
חוזי אקדמה על מדד המחירים לצרכן	27	24
	2,412	2,876

החשיפה המרבית לסיכון אשראי בגין לקוחות הנובעת ממכירות למועד הדוח מוצגים לפי סווג הלקוח היא:

	ליום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
לקוחות קצה	1,970	1,734
משווקים ומפעילים אחרים	98	184
אחרים	1	3
	2,069	1,921

הפסדים מירידת ערך
להלן גיול הלוואות וחייבים למועד הדוח:

	2008		2007	
	ברוטו	ירידת ערך	ברוטו	ירידת ערך
	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
אינם בפיגור	1,888	18	1,814	10
פיגור עד שנה	180	46	114	33
פיגור של מעל שנה	189	124	163	127
	2,257	188	2,091	170

התנועה בהפרשה לירידת ערך בגין יתרות לקוחות במשך השנה היתה כדלקמן:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
יתרה ליום 1 בינואר	170	182
מחיקת חובות	(32)	(28)
גידול בהוצאות חובות אבודים ומסופקים	50	16
יתרה ליום 31 בדצמבר	188	170

באור 18 – מכשירים פיננסיים (המשך)

הפסדים מירידת ערך (המשך)

החובות שנמחקו בסך 32 מיליון ש"ח ו-28 מיליון ש"ח בשנה שהסתיימה ביום 31 בדצמבר 2008 ו-2007, בהתאמה, מתייחסים להערכה החברה לקיומו של אובדן חובות בגין מנויים.

ההפרשה המחושבת, בהתייחס ללקוחות, משמשת לרישום ירידת הערך אלא אם כן החברה מעריכה שלא קיימת אפשרות שסכום החוב יוחזר. במקרה זה, הסכום שמוגדר כסכום שאינו בר- השבה נמחק ישירות כנגד יתרת הלקוחות.

סיכון נזילות

להלן מועדי הפירעון החוזיים של התחייבויות פיננסיות, כולל אומדן תשלומי ריבית. גילוי זה אינו כולל סכומים אשר לגביהם קיימים הסכמי קיזוז:

	ליום 31 בדצמבר 2008						
	הערך בספרים	תזרים מזומנים חוזי	שנה ראשונה	שנה שניה	שנה שלישית	4-5 שנים	מעל חמש שנים
	מיליוני ש"ח						
אגרות חוב	(3,848)	(4,749)	(516)	(500)	(483)	(1,105)	(2,145)
ספקים וזכאים אחרים	(843)	(843)	(843)	-	-	-	-
חוזי החלפת ריבית	(12)	(12)	(5)	(7)	-	-	-
חוזי אקדמה על שערי חליפין	(14)	(14)	(14)	-	-	-	-
חוזי אקדמה על מדד המחירים לצרכן	(28)	(28)	(28)	-	-	-	-
סך הכל	(4,745)	(5,646)	(1,406)	(507)	(483)	(1,105)	(2,145)

	ליום 31 בדצמבר 2007						
	הערך בספרים	תזרים מזומנים חוזי	שנה ראשונה	שנה שניה	שנה שלישית	4-5 שנים	מעל חמש שנים
	מיליוני ש"ח						
הלוואות מבנקים	(577)	(637)	(270)	(249)	(118)	-	-
אגרות חוב	(3,193)	(4,048)	(268)	(446)	(432)	(819)	(2,083)
ספקים וזכאים אחרים	(1,113)	(1,113)	(1,113)	-	-	-	-
חוזי חלפת מטבע	(66)	(66)	(26)	(27)	(13)	-	-
חוזי אקדמה על שערי חליפין	(28)	(28)	(28)	-	-	-	-
סך הכל	(4,977)	(5,892)	(1,705)	(722)	(563)	(819)	(2,083)

באור 18 – מכשירים פיננסיים (המשך)

סיכון נזילות (המשך)

הטבלה הבאה מציגה את התקופות בהן צפוי להתרחש תזרים מזומנים, המתייחס לנגזרים המשמשים לגידור תזרים מזומנים:

	הערך בספרים	תזרים מזומנים צפוי	שנה ראשונה	שנה שניה	שנה שלישית	4-5 שנים	מעל חמש שנים
				מיליוני ש"ח			
31 בדצמבר 2008							
חוזי אקדמה על שערי חליפין:							
נכסים	14	14	14	-	-	-	-
התחייבויות	(2)	(2)	(2)	-	-	-	-
	12	12	12	-	-	-	-
31 בדצמבר 2007							
חוזי אקדמה על שערי חליפין:							
נכסים	-	-	-	-	-	-	-
התחייבויות	(27)	(27)	(27)	-	-	-	-
	(27)	(27)	(27)	-	-	-	-

הטבלה הבאה מציגה את התקופות בהן צפוי להתרחש תזרים מזומנים, המתייחס לנגזרים המשמשים לגידור תזרים מזומנים, להשפיע על רווח והפסד:

	הערך בספרים	תזרים מזומנים צפוי	שנה ראשונה	שנה שניה	שנה שלישית	4-5 שנים	מעל חמש שנים
				מיליוני ש"ח			
31 בדצמבר 2008							
חוזי אקדמה על שערי חליפין:							
נכסים	14	14	14	-	-	-	-
התחייבויות	(2)	(2)	(2)	-	-	-	-
	12	12	12	-	-	-	-
31 בדצמבר 2007							
חוזי אקדמה על שערי חליפין:							
נכסים	-	-	-	-	-	-	-
התחייבויות	(27)	(27)	(17)	(3)	(2)	(3)	(2)
	(27)	(27)	(17)	(3)	(2)	(3)	(2)

באור 18 – מכשירים פיננסיים (המשך)

סיכון מטבע ומדד המחירים לצרכן

חשיפת החברה לסיכון מטבע חוץ ולמדד המחירים לצרכן, המבוסס על ערכים נקובים, הינה כדלקמן:

	31 בדצמבר 2008			31 בדצמבר 2007		
	צמוד מטבע חוץ (בעיקר דולר ארה"ב)	צמוד מדד מחירים לצרכן	לא צמוד	צמוד מטבע חוץ (בעיקר דולר ארה"ב)	צמוד מדד מחירים לצרכן	לא צמוד
		מיליוני ש"ח			מיליוני ש"ח	
נכסים שוטפים						
מזומנים ושווי מזומנים	6	-	269	10	-	901
לקוחות	-	-	1,478	-	-	1,385
חייבים ויתרות חובה, כולל נגזרים	-	1	68	-	1	46
נכסים לזמן ארוך						
חייבים ויתרות חובה לזמן ארוך	**-**	18	572	**-**	18	515
התחייבויות שוטפות						
הלוואות לזמן קצר	-	(329)	-	(131)	(121)	(101)
ספקים והוצאות לשלם	(108)	-	(569)	(193)	-	(760)
זכאים ויתרות זכות, כולל נגזרים	-	(118)	(220)	(1)	(89)	(255)
התחייבויות לזמן ארוך						
הלוואות לזמן ארוך מתאגידים בנקאיים	-	-	-	(196)	-	(147)
אגרות חוב	-	(3,401)	-	-	(2,983)	-

להלן נתונים בדבר מדדי המחירים לצרכן ושערי חליפין:

	31 בדצמבר 2008	31 בדצמבר 2007
מדד המחירים לצרכן (בנקודות)	198.4	191.2
שער חליפין דולר ארה"ב - שקל	3.802	3.846

	2008	2007
שיעור השינוי ב-%		
מדד המחירים לצרכן (בנקודות)	3.8%	3.4%
שער חליפין דולר ארה"ב - שקל	(1.1%)	(9.0%)

באור 18 – מכשירים פיננסיים (המשך)

סיכון מטבע (המשך)

ניתוח רגישות
השינוי במדד המחירים לצרכן לימים 31 בדצמבר 2008 ו-2007 היה מגדיל (מקטין) את ההון העצמי ואת הרווח או ההפסד בסכומים המוצגים להלן. ניתוח זה נעשה בהנחה שכל שאר המשתנים, ובמיוחד שעורי הריבית, נשארו קבועים. הניתוח לגבי שנת 2007 נעשה בהתאם לאותו בסיס.

	שינוי	הון עצמי מיליוני ש"ח	רווח נקי מיליוני ש"ח
31 בדצמבר 2008			
עליה במדד המחירים לצרכן	2.0%	(27)	(27)
עליה במדד המחירים לצרכן	1.0%	(14)	(14)
ירידה במדד המחירים לצרכן	(1.0%)	14	14
ירידה במדד המחירים לצרכן	(2.0%)	27	27
31 בדצמבר 2007			
עליה במדד המחירים לצרכן	2.0%	(19)	(19)
עליה במדד המחירים לצרכן	1.0%	(9)	(9)
ירידה במדד המחירים לצרכן	(1.0%)	2	2
ירידה במדד המחירים לצרכן	(2.0%)	3	3

רגישות השינוי בשער חליפין הינה לא מהותית לימים 31 בדצמבר 2008 ו-2007.

סיכון שיעורי ריבית

סוג ריבית
להלן פירוט בדבר סוג הריבית של מכשירים פיננסיים נושאי ריבית של החברה:

	31 בדצמבר 2008 מיליוני ש"ח	31 בדצמבר 2007 מיליוני ש"ח
מכשירים בריבית קבועה		
נכסים פיננסיים	8	8
התחייבויות פיננסיות	(3,730)	(3,104)
	(3,722)	(3,096)
מכשירים בריבית משתנה		
נכסים פיננסיים	275	911
התחייבויות פיננסיות	-	(575)
	275	336

ניתוח רגישות השווי ההוגן לגבי מכשירים בריבית קבועה
נכסים והתחייבויות בריבית קבועה של החברה אינם נמדדים בשווי ההוגן דרך רווח והפסד, וכן החברה אינה מייעדת נגזרים (חוזי החלפת ריבית) כמשירים מגדרים בהתאם למודל חשבונאות גידור של שווי הוגן. לכן לשינוי בשעורי הריבית לתאריך המאזן, לא צפויה כל השפעה על הרווח או על ההפסד.

באור 18 – מכשירים פיננסיים (המשך)

סיכון שיעורי ריבית (המשך)

ניתוח רגישות תזרים המזומנים לגבי מכשירים בריבית משתנה

שינוי בשיעורי הריבית לתאריך המאזן היה מגדיל (מקטין) את ההון העצמי ואת הרווח או ההפסד בסכומים המוצגים להלן. ניתוח זה נעשה בהנחה שכל שאר המשתנים, ובמיוחד שערי החליפין של מטבע חוץ, נשארו קבועים. הניתוח לגבי שנת 2007 נעשה בהתאם לאותו בסיס.

	הון עצמי				רווח או הפסד			
	1.0% גידול	1.0% קיטון	0.5% גידול	0.5% קיטון	1.0% גידול	1.0% קיטון	0.5% גידול	0.5% קיטון
	מיליוני ש"ח				מיליוני ש"ח			
31 בדצמבר 2008								
מכשירים בריבית משתנה	2	(2)	1	(1)	2	(2)	1	(1)
חוזי החלפת ריבית	2	(2)	1	(1)	2	(2)	1	(1)
רגישות תזרים המזומנים (נטו)	4	(4)	2	(2)	4	(4)	2	(2)
31 בדצמבר 2007								
מכשירים בריבית משתנה	2	(2)	1	(1)	2	(2)	1	(1)
חוזי החלפת ריבית	3	(3)	1	(1)	3	(3)	1	(1)
רגישות תזרים המזומנים (נטו)	5	(5)	2	(2)	5	(5)	2	(2)

שווי הוגן

שווי הוגן בהשוואה לערך בספרים

השווי ההוגן של הנכסים וההתחייבויות הפיננסיים והערכים בספרים המוצגים במאזן, הינם כדלקמן:

	31 בדצמבר 2008			31 בדצמבר 2007		
	ערך בספרים	שווי הוגן	שיעור ריבית ששימש לחישוב השווי ההוגן	ערך בספרים	שווי הוגן	שיעור ריבית ששימש לחישוב השווי ההוגן
	מיליוני ש"ח			מיליוני ש"ח		
נכסים						
מזומנים ושווה מזומנים	275	275		911	911	
לקוחות	1,478	1,478		1,385	1,385	
חייבים ויתרות חובה, כולל נגזרים	69	69		47	47	
חייבים ויתרות חובה לזמן ארוך	590	590	5.0%	533	533	5.0%
התחייבויות						
ספקים והוצאות לשלם	(677)	(677)		(953)	(953)	
זכאים ויתרות זכות, לרבות נגזרים	(220)	(220)		(254)	(254)	
הלוואות לזמן ארוך מתאגידים בנקאיים, כולל חלויות שוטפות וריבית לשלם	-	-		(577)	(577)	5.0%-6.0%
אגרות חוב, כולל חלויות שוטפות וריבית לשלם	(3,848)	(3,877)	3.9%-4.6%	(3,237)	(3,193)	3.3%-4.7%
	(2,333)	(2,362)		(2,145)	(2,101)	

באור 19 - הכנסות ממכירות ושירותים

ההרכב:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
מכירות של ציוד טלפון סלולרי, נטו	745	635
שירותים	5,672	5,415
	6,417	6,050
מידע נוסף:		
כולל מכירות בתשלומים	725	596

באור 20 - עלות המכירות והשירותים

ההרכב:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
לפי מקורות ההכנסה		
עלות ציוד טלפון סלולרי	832	800
עלות מתן השרותים	2,570	2,577
	3,402	3,377
לפי מרכיביה		
קניות של ציוד טלפון סלולרי	691	906
שינוי במלאי	126	(113)
הפחתות מלאי	15	7
	832	800
דמי שכירות והוצאות נלוות	290	305
משכורות והוצאות נלוות אחרות	163	158
תשלומים למפעילי תקשורת אחרים	986	980
עלות שירותי ערך מוסף	361	324
פחת והפחתות	500	532
תמלוגים ואגרות (ראה באור 27(1)(ב))	160	172
אחרות	110	106
	2,570	2,577
	3,402	3,377

באור 21 - הוצאות מכירה ושיווק

ההרכב:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
משכורות והוצאות נלוות	321	286
עמלות	85	124
פרסום ויחסי ציבור	111	121
פחת והפחתות	41	7
אחרות	143	147
	701	685

באור 22 - הוצאות הנהלה וכלליות

ההרכב:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
משכורות והוצאות נלוות	165	160
פחת והפחתות	210	236
דמי שכירות ואחזקה	79	77
עיבוד נתונים ושירותים מקצועיים	59	67
חובות אבודים ומסופקים	50	16
אחרות	96	97
	659	653

באור 23 - הוצאות (הכנסות) אחרות, נטו

ההרכב:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
הפסד הון ממכירת רכוש קבוע	1	4
אחרות	-	11
הוצאות אחרות	1	15
רווח הון ממכירת רכוש קבוע	(10)	-
רווח הון ממכירת קרקע	(9)	-
אחרות	(11)	(12)
הכנסות אחרות	(30)	(12)
הוצאות (הכנסות) אחרות שהוכרו ברווח והפסד	(29)	3

באור 24 - הכנסות והוצאות מימון

ההרכב:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
הכנסות ריבית מפקדונות בנקים	10	23
הכנסות ריבית בגין עסקאות מכירה בתשלומים	49	41
רווח נטו בגין הפרשי שער	21	67
שינוי נטו בשווי ההוגן של נכסים פיננסים הנמדדים לפי שווי הוגן דרך רווח והפסד	3	-
שינוי נטו בנגזרים משובצים	-	9
הכנסות מימון	83	140
הוצאות ריבית בגין התחייבויות לזמן ארוך	(206)	(199)
הוצאות הפרשי הצמדה בגין התחייבויות לזמן ארוך	(161)	(50)
שינוי נטו בשווי ההוגן של נכסים פיננסים הנמדדים לפי שווי הוגן דרך רווח והפסד	-	(38)
שינוי נטו בנגזרים משובצים	(26)	-
הוצאות מימון	(393)	(287)
הוצאות מימון נטו שהוכרו ברווח והפסד	(310)	(147)

באור 25 - מיסים על ההכנסה

א. החברה נישומה לצרכי מס על בסיס דוחות לא מאוחדים. המס מחושב על בסיס התוצאות הכספיות במטבע המקומי כפי שנקבעו לצרכים סטטוריים.

ב. עד ליום 31 בדצמבר 2007, החברה נישומה על פי חוק מס הכנסה (תיאומים בשל אינפלציה), התשמ"ה-1985 (להלן- החוק), שהנהיג מדידה של התוצאות לצורכי מס על בסיס ריאלי על מנת למנוע מיסוי של רווחים אינפלציוניים. יחד עם זאת, תיאום הרווח הנומינלי לפי חוקי המס אינו זהה לרווח המדווח בהתאם ל-IFRS וכתוצאה מכך נוצרים הפרשים בין הרווח המדווח על פי הדוחות הכספיים לבין הרווח המותאם לצורכי מס הכנסה.

ביום 26 בפברואר 2008, עבר בכנסת חוק מס הכנסה (תיאומים בשל אינפלציה) (תיקון מס' 20) (הגבלת תקופת התחולה), התשס"ח – 2008 (להלן – "התיקון"). בהתאם לתיקון, תחולתו של חוק התיאומים תסתיים בשנת המס 2007, ומשנת המס 2008 לא יחולו עוד הוראות החוק, למעט הוראות המעבר שמטרתן למנוע עיוותים בחישובי המס.

בהתאם לתיקון, בשנת המס 2008 ואילך לא תחושב עוד התאמה של ההכנסות לצרכי מס לבסיס מדידה ריאלי. כמו כן, תופסק ההצמדה למדד של סכומי הפחת על נכסים קבועים ושל סכומי הפסדים מועברים לצרכי מס, באופן שסכומים אלה יתואמו עד למדד של סוף שנת המס 2007, והצמדתם למדד תיפסק ממועד זה ואילך.

ג. ביום 25 ביולי 2005, עבר בכנסת חוק לתיקון פקודת מס הכנסה (מס' 147 והוראת השעה), התשס"ה-2005 (להלן: "תיקון 147"). התיקון קובע הפחתה הדרגתית של שיעור מס חברות באופן הבא: בשנת המס 2006 יחול שיעור מס של 31%, בשנת 2007 יחול שיעור מס של 29%, בשנת 2008 יחול שיעור מס של 27%, בשנת 2009 יחול שיעור מס של 26% ומשנת 2010 ואילך, יחול שיעור מס של 25%. כמו כן, החל משנת 2010, עם הפחתת שיעור מס חברות ל- 25%, יחוייב כל רווח הון ריאלי בשיעור מס של 25%.

באור 25 - מיסים על ההכנסה (המשך)

ד. התאמת הוצאות המיסים:

התאמה בין הוצאות המס התאורטי שחושבו על בסיס הרווח לפני מיסים ושיעור המס הסטטוטורי ובין הוצאות המיסים בפועל מוצגות להלן:

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
רווח לפני מס לפי דוח רווח והפסד	1,374	1,185
שעור מס	27%	29%
מס מחושב לפי שיעור מס עיקרי	371	344
תוספת (חסכון) בחבות המס בגין:		
הוצאות ריבית לא מוכרות (ראה סעיף 25ח)	-	(56)
הוצאות לא מוכרות והכנסות פטורות, נטו	13	13
אחרים, נטו	5	9
	389	310

ה. מיסים נדחים

	31 בדצמבר	31 בדצמבר
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
רווח הון	(3)	-
הפרשות בגין זכויות לעובדים, נטו	(1)	(1)
הפרשה לחובות מסופקים	47	46
נגזרים משובצים	-	(3)
עסקאות הגנה	4	11
רכוש קבוע ונכסים בלתי מוחשיים	(203)	(202)
	(156)	(149)

המיסים הנדחים מחושבים לפי שיעור המס הצפוי לחול במועד ההיפוך כפי שצויין לעיל.

באור 25 - מיסים על ההכנסה (המשך)

ה. מיסים נדחים (המשך)

נכסי מס והתחייבויות מסים נדחים מיוחסים לפריטים הבאים:

	הפרשה בגין הטבות לעובדים	הפרשה לחובות מסופקים	נגזרים	רכוש קבוע ורכוש אחר	רווחי הון	נגזרים משובצים	סך הכל
	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
יתרת מס נדחה (התחייבות למס) ליום 1 בינואר 2007	-	53	10	(216)	-	-	(153)
שינויים אשר נזקפו לרווח והפסד	(1)	(7)	-	14	-	(3)	3
שינויים אשר נזקפו להון	-	-	1	-	-	-	1
יתרת מס נדחה (התחייבות למס) ליום 31 בדצמבר 2007	**(1)**	**46**	**11**	**(202)**	**-**	**(3)**	**(149)**
שינויים אשר נזקפו לרווח והפסד	-	1	-	(1)	(3)	3	-
שינויים אשר נזקפו להון	-	-	(7)	-	-	-	(7)
יתרת מס נדחה (התחייבות למס) ליום 31 בדצמבר 2008	**(1)**	**47**	**4**	**(203)**	**(3)**	**-**	**(156)**

ו. מיסים על הכנסה בדוח רווח והפסד

	לשנה שנסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
מיסים שוטפים	390	314
מיסים נדחים	(1)	(4)
	389	310

ההכנסות לפני מס והוצאות המיסים לכל תקופות הדיווח הינם בישראל.

ז. הפסדים לצרכי מס

לחברת בת של החברה הפסדים מועברים לצרכי מס בסכום של 2 מיליון ש"ח בהתאם להסכם שומות מס שנחתם בשנת 2008. יתרות ההפסדים והניכויים המועברים לשנה הבאה צמודים למדד ובגינם לא נוצר נכס מס נדחה מאחר ואין צפי לניצולם.

לחברה שומות מס סופיות עד וכולל שנת המס 2005.

באור 25 - מיסים על ההכנסה (המשך)

ח. פסיקת בית המשפט העליון בנוגע להתרת הוצאות מימון לצרכי מס

ביום 20 בנובמבר 2006, הפך בית המשפט העליון פסיקה קודמת של בית המשפט המחוזי בעניין ההכרה לצרכי מס בהוצאות מימון שרשויות המס עשויות לייחס למימון דיבידנדים. בעקבות פסיקה זו, כללה החברה בדוחותיה הכספיים לשנת 2006 הפרשה נוספת למס בסך של 56 מיליון ש"ח, בהתבסס על האפשרות כי חלק מהוצאות המימון שנצברו ב-2006 לא תוכרנה כהוצאות המותרות בניכוי לצורכי מס. נכון ליום אישור הדוחות הכספיים לשנה שהסתיימה ביום 31 בדצמבר 2006, רמת הוודאות הדרושה על מנת להכיר בהוצאות אלה לצרכי מס, לא הייתה קיימת.

בחודש אוקטובר 2007, קבע בית המשפט העליון שתי פסיקות חדשות המתייחסות לפסיקה קודמת שלו מחודש נובמבר 2006 בנוגע להתרת הוצאות מימון לצרכי מס, שעשויות להיות מיוחסות על ידי רשות המיסים למימון חלוקת דיבידנדים. כתוצאה מהפסיקות החדשות ובהתבסס על חוות דעת של יועציה המשפטיים, ביטלה החברה את ההפרשה המוזכרת לעיל והפחיתה את הוצאות המס לשנת 2007 ב- 56 מיליון ש"ח.

באור 26 – חכירות תפעוליות

דמי השכירות השנתיים החזויים, שאינם ניתנים לביטול, הינם כדלקמן:

	31 בדצמבר 2008
	מיליוני ש"ח
עד שנה	221
משנה ועד חמש שנים	397
מעל חמש שנים	48
	666

במהלך השנה שהסתיימה ביום 31 בדצמבר 2008, הכירה החברה בסך של 262 מיליון ש"ח (כולל הצמדה למדד המחירים לצרכן בסך 5 מיליון ש"ח) כהוצאות בדוח רווח והפסד בגין חכירות תפעוליות (2007- 256 מיליון ש"ח, כולל הצמדה למדד המחירים לצרכן בסך 5 מיליון ש"ח).

הסכמי שכירות עיקריים:

א. משרדים ומחסנים- הסכמי שכירות לתקופה של עד 5 שנים ו-11 חודשים.
ב. תחנות מיתוג- הסכמים לשכירת תחנות מיתוג לתקופות שונות של עד 8 שנים.
ג. אתרי תא- הסכמים לשכירת אתרי תא לתקופות שונות של עד 18 שנים ו-4 חודשים.
ד. מרכזי שירות, חנויות קמעונאיות ודוכנים- הסכמים לשכירות של מרכזי שירות והתקנות, ודוכנים לתקופות שונות של עד 8 שנים ו-7 חודשים.
ה. שרותי תמסורת עבור אתרי תא ומתגים.
ו. השכרת רכבים באמצעות ליסינג תפעולי למשך 3 שנים.

באור 27 - התקשרויות

1. לחברה התחייבויות בקשר לרשיון שהוענק לה בשנת 1994 שהעיקריות שבהן:

   א. לא למשכן נכס מהנכסים המשמשים לביצוע הרשיון ללא הסכמה מראש של משרד התקשורת.
   ב. תשלום תמלוגים למדינת ישראל בגובה 2% מתוך הכנסות החברה הנובעות משרותי תקשורת, בניכוי תשלומים המועברים למפעילי תקשורת אחרים בגין אינטרקונקט, שרותי נדידה, מכירת מכשירים והוצאות בגין חובות מסופקים. שיעור התמלוגים הופחת בשנים האחרונות מ-4.5% בשנת 2002, ל-4% בשנת 2003, ל-3.5% בשנים 2004 ו-2005, ל-3% בשנת 2006, ל-2.5% בשנת 2007 ול-2% בשנת 2008. שיעור התמלוגים ימשיך לרדת ב-0.5% מידי שנה ועד לשיעור של 1%.
   ג. ההון העצמי המשותף של כלל בעלי מניות החברה, יחד עם ההון העצמי של החברה, לא יפחת מ-200 מיליון דולר. לעניין זה לא יובא בחשבון בעל מניות המחזיק פחות מ-10% מהזכות לרווחי החברה.

   החברה עומדת בכל התחייבויותיה הנ"ל.

2. בחודש ספטמבר 2005, חתמה החברה על הסכם עם אריקסון ישראל בע"מ במסגרתו תרכוש החברה רשת גישת רדיו בטכנולוגיית UMTS וכן מוצרים ושירותים נלווים. החברה התחייבה לרכוש שירותי תחזוקה לתקופה של חמש שנים החל ממועד השקת המערכת (עד 2011). לחברה יש אופציה לרכוש שירותי תחזוקה נוספים במהלך 20 שנים מיום השקת המערכת (עד 2026), כולל כל השירותים הנדרשים להטמעת ותחזוקת המערכת (כולל קבלת עדכונים ושדרוגים של המערכת). החברה התחייבה לרכוש מאריקסון 60% מאתרי הבסיס שתרכוש עד ספטמבר 2010. ההיקף המצטבר של ההסכם הינו כ-27.5 מיליון דולר לתשלום על פני 5 שנים. אחריות הצדדים הוגבלה לנזקים ישירים עד שווי מקסימאלי של 40% מערך ההסכם.

3. דפוס בארי- שותפות מוגבלת יחד עם דפוס בארי טכנולוגיות (1977) בע"מ (להלן ביחד "דפוס בארי") מספקת לחברה שרותי הפקת חשבוניות, שרותי עבודות דפוס שונות ושרותי הפצה, אריזה ומשלוח של החשבוניות או של דברי דואר אחרים לבית המיון המרכזי של רשות הדואר. באוגוסט 2003 התקשרה סלקום עם דפוס בארי בהסכם לייצור דפוס וקבלת שירותי הפקת חשבוניות. במסגרת ההסכם, התחייבה החברה לרכוש מדפוס בארי שירותי הפקה וייצור של חשבוניות בכמות חודשית שלא תפחת מהקבוע בהסכם. החברה תהא רשאית להפחית את הכמות החודשית הנקובה בהסכם במידה והחברה תשנה את מדיניותה בנושא שליחת חשבוניות מודפסות. תוקף ההסכם הוא עד חודש דצמבר 2010.

4. נכון ליום 31 בדצמבר 2008 לחברה התחייבות לרכישת ציוד לרשת התקשורת וציוד טלפון סלולארי בסך הנאמד בכ-119 מיליון ש"ח.

באור 28 - התחייבויות תלויות

א. התחייבויות תלויות

כל הסכומים המופיעים בנוגע לתביעות להלן הינם נכונים למועד הגשת התביעות, אלא אם כן צוין במפורש אחרת.

במהלך העסקים הרגיל החברה מעורבת במספר תביעות. העלויות שעשויות לנבוע מתביעות אלו, מופרשות רק כאשר יותר סביר מאשר לא שתיווצר חבות הנובעת מאירועי העבר, ושסכום חבות, ניתן לכימות או הערכה בטווח סביר. סכום ההפרשות שבוצעו מבוסס על הערכת מידת הסיכון בכל אחת מהתביעות, כאשר אירועים המתרחשים במהלך ההתדיינות המשפטית עשויים לחייב ביצוע של הערכה מחודשת של סיכון זה. הערכת החברה בדבר הסיכון מתבססת הן על חוות דעת יועציה המשפטיים והן על אומדן החברה בדבר סכומי הסדרי הפשרה הסבירים שהחברה צפויה לשאת, במידה והסדרי פשרה כאמור יוסכמו על ידי שני הצדדים.

ההתדיינויות והתביעות שעשויות להיות להן השפעה משמעותית על מצבה הכספי של החברה מתוארות להלן:

1. בחודש ספטמבר 2000, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה, לבית המשפט המחוזי בתל אביב יפו על ידי אחד ממנוייה, בקשר עם חיובי מע"מ על פרמיות ביטוח ומתן שרותי ביטוח שלטענתו הינם בניגוד לחוק. בחודש פברואר 2006, סולקה התובענה על הסף על ידי בית המשפט. בחודש מרס 2006 קיבלה החברה הודעת ערעור על החלטה זו. בחודש דצמבר 2008 הערעור אושר בחלקו והתביעה הוחזרה לדיון בבית המשפט המחוזי בנוגע למספר נושאים שנקבעו על ידי בית המשפט העליון. במידה ותובענה זו תאושר כתובענה ייצוגית הסכום הנתבע הינו כ-402 מיליון ש"ח.

2. בחודש אוגוסט 2001, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה, לבית המשפט המחוזי בתל אביב יפו על-ידי אחד ממנוייה, בקשר עם תעריפי שיחות יוצאות במסלול טוקמן (משולם מראש) וגבייה של עמלת הפצה בגין כרטיסי "טוקמן". בחודש יוני 2004, נדחתה על ידי בית המשפט הבקשה לאשר את התובענה כתובענה ייצוגית. בחודש ספטמבר 2004 הוגש לבית המשפט העליון ערעור על החלטה זו. בחודש יולי 2007 קיבל בית המשפט העליון את בקשתם המוסכמת של הצדדים, שהוגשה לאור חוק התובענות הייצוגיות, תשס"ו-2006, להחזיר את התובענה ואת הבקשה לאישורה כתובענה ייצוגית לדיון בבית המשפט המחוזי בתל אביב יפו. במידה ותובענה זו תאושר כתובענה ייצוגית, הסכום הנתבע הינו כ-135 מיליון ש"ח.

3. בחודש אוגוסט 2001, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית, נגד החברה לבית המשפט המחוזי בתל אביב יפו על ידי אחד ממנוייה, בקשר עם תעריפי זמן אויר ודמי מנוי שלטענת התובע נגבו שלא בהתאם להסכם עם מנויי החברה. בשנת 2006 תוקנה התביעה (לאחר שהועברה לבית המשפט המחוזי במחוז המרכז). בחודש ספטמבר 2008, נדחתה על ידי בית המשפט הבקשה לאישור התביעה כתובענה ייצוגית. במידה והתביעה היתה מאושרת כתובענה ייצוגית, הסכום הנתבע מהחברה הוערך על ידי התובע בכ-1.26 מיליארד ש"ח וכן פיצויים עונשיים בשיעור שלא יפחת מ- 100% מהנזק.

4. בחודש דצמבר 2002, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה ומפעיל סלולרי נוסף, לבית המשפט המחוזי בתל-אביב יפו בקשר עם תעריפי שיחות נכנסות, בהם חויבו מנויים של מפעילים אחרים בעת התקשרות ללקוחות החברה בתקופה שקדמה להתקנת תקנות קישור גומלין. בחודש דצמבר 2008, נדחתה על ידי בית המשפט הבקשה לאישור התביעה כתובענה ייצוגית. בחודש ינואר 2009, לאחר תאריך המאזן, הוגש לבית המשפט העליון ערעור נגד דחיית התביעה. במידה ותובענה זו תוכר כתובענה ייצוגית, הסכום הנתבע הינו כ-1.6 מיליארד ש"ח.

5. בחודש אפריל 2003, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה ושתי מפעילות סלולריות נוספות, לבית המשפט המחוזי בתל אביב יפו ביחס לתעריפי SMS נכנס למנויים של מפעילים אחרים בעת משלוח הודעות SMS למנויי החברה, במהלך התקופה שקדמה לתקנות של קישור גומלין בגין הודעות SMS. במידה ותובענה זו תוכר כתובענה ייצוגית הסכום הנתבע הינו כ-90 מיליון ש"ח, מבלי לייחד את הסכום הנתבע מהחברה.

באור 28 - התחייבויות תלויות (המשך)

א. התחייבויות תלויות (המשך)

6. בחודש אוגוסט 2003, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה, לבית המשפט המחוזי בתל אביב יפו (שלאחר מכן הועברה לבית המשפט המחוזי באזור המרכז), על ידי אחד ממנוייה, ביחס לשיטת עיגול הסכומים של תעריפי השיחות של החברה, שיטת ההצמדה למדד של תעריפי השיחות של החברה וכן כי תעריף מסוים שאושר על ידי משרד התקשורת בשנת 1996 אושר לכאורה שלא כדין. בחודש מרס 2006, בעקבות פרסום תיקון לחוק הגנת הצרכן בדצמבר 2005, הגיש התובע כתב תביעה מתוקן, שאליו השיבה החברה. במידה ותובענה זו תוכר כתובענה ייצוגית הסכום הנתבע הוא 150 מיליון ש"ח.

7. בחודש אוגוסט 2006, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה (ושתי מפעילות סלולריות נוספות) לבית המשפט המחוזי בתל אביב-יפו, על ידי תובעים הטוענים שהינם מנויים של הנתבעות, ביחס לכספים הנגבים לכאורה שלא כדין, בגין מקטע שיחה שאינו מתקיים בפועל. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הכולל הנתבע מוערך על ידי התובעים בסך העולה על 100 מיליון ש"ח, מבלי לייחד את הסכום הנתבע מהחברה.

8. בחודש נובמבר 2006, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה וכנגד צד ג' שסיפק שירותים ללקוחות החברה ("הספק") וגורמים נוספים שעל פי הנטען הינם קשורים לספק, לבית המשפט המחוזי בתל אביב-יפו תביעה, על ידי אחד ממנוי החברה. התביעה הינה בקשה בנוגע לסכומים בהם חויבו,לכאורה, מנויי החברה, על ידי החברה, בגין שירותי תוכן של הספק שלא בהסכמתם. במידה ותובענה זו תוכר כתובענה ייצוגית, הסכום הנתבע מהחברה, הספק והגורמים הנוספים הוא 18 מיליון ש"ח וכן סכום נוסף של 10 מיליון ש"ח בגין עוגמת נפש.

9. בחודש ינואר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה, שתי מפעילות סלולריות ושתי מפעילות קוויות נוספות, לבית המשפט המחוזי בירושלים, על ידי שלושה תובעים הטוענים להיותם לקוחות של חלק מהנתבעות, בנוגע להפרה לכאורה של חובתן החוקית לאפשר למנוייהן לעבור מחברה לחברה, תוך שמירה על מספרי הטלפון שלהם ובכך, לטענת התובעים, גורמות לצרכנים נזקים כספיים. בחודש מרס 2008, הבקשה לאישור התביעה כתובענה ייצוגית נמחקה והתביעה נדחתה, לבקשת התובעים. במידה והתביעה היתה מאושרת כתובענה ייצוגית סכום הפיצוי הכולל הנתבע מהנתבעות כולן הוא לפחות 10.6 מיליארד ש"ח.

10. בחודש פברואר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה, לבית המשפט המחוזי בתל אביב, על ידי תובע, אשר לטענתו, הינו לקוח של החברה. בכתב התביעה נטען ע"י התובע כי החברה גבתה סכומי מע"מ שלא כדין ממנוייה תושבי אילת. בחודש מאי 2007 נדחו התביעה והבקשה להכיר בה כתובענה ייצוגית. במידה והתביעה היתה מאושרת כתובענה ייצוגית, הסכום הנתבע מהחברה הוערך על ידי התובע בכ- 33 מיליון ש"ח.

11. בחודש פברואר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית נגד החברה (ושתי מפעילות סלולריות נוספות), לבית המשפט המחוזי בתל אביב, על ידי תובעים אשר לטענתם הינם לקוחות של שלושת הנתבעות, בקשר לסכומים שלטענתם נגבו ביתר תוך הפרה של רישיון המפעילות הסלולריות, בגין שיחות שביצעו או קיבלו בעת שהותם בחו"ל לפי יחידת חיוב גדולה מזו שלכאורה היו הנתבעות רשאיות לחייבם לפיה בהתאם לרישיונן. היה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע מהנתבעות הוא כ-449 מיליון ש"ח כאשר סכום התביעה המיוחס לחברה הינו כ-193 מיליון ש"ח.

12. בחודש אפריל 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי בתל אביב-יפו, על ידי שני תובעים, אשר לטענתם הינם לקוחות של החברה, בנוגע לטענה כי החברה העלתה את תעריפיה שלא כדין ובניגוד לרישיונה, בתוכניות הכוללות תקופת התחייבות לסל שירותים. בחודש פברואר 2008, נדחו התביעה והבקשה להכיר בה כתובענה ייצוגית. במידה והתביעה היתה מאושרת כתובענה ייצוגית, הסכום הנתבע מהחברה הוערך על ידי התובעים בכ-230 מיליון ש"ח.

13. בחודש מאי 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי בתל אביב-יפו, על ידי שני תובעים, אשר לטענתם הינם לקוחות של החברה. בנוגע לטענה כי החברה העלתה את תעריפיה שלא כדין ובניגוד לרשיונה, בתוכניות הכוללות תקופת התחייבות לסל שירותים. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע מהחברה הינו כ-875 מיליון ש"ח.

באור 28 - התחייבויות תלויות (המשך)

א. התחייבויות תלויות (המשך)

14. בחודש ספטמבר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה (ונגד שתי מפעילות סלולריות נוספות) לבית המשפט המחוזי בירושלים, על ידי שלושה תובעים, אשר לטענתם, הינם לקוחות של הנתבעות. התובעים טוענים כי הנתבעות חייבו את לקוחותיהן בגין שליחת הודעות SMS למנויים שנטרלו את יכולתם לקבל הודעות SMS ו/או הטעו את השולחים על ידי מתן אינדיקציה בטלפונים הסלולרים שלהם כי הודעותיהם נשלחו. בחודש יולי 2008, הבקשה לאישור התביעה כתובענה ייצוגית נמחקה, לבקשת התובעים ובהסכמת הנתבעות. במידה והתביעה היתה מאושרת כתובענה ייצוגית, הסכום הנתבע מהנתבעות הוערך ע"י התובעים בכ-182.5 מיליון ש"ח, מבלי לייחד את הסכום הנתבע מהחברה.

15. בחודש נובמבר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי באזור המרכז, על ידי תובע הטוען שהינו מנוי של החברה. בנוגע לטענה כי החברה מחייבת את מנוייה בגין שירותי תוכן מבלי שקיבלה את הסכמתם המפורשת לכך באופן העומד בתנאי רישיונה הכללי. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע מוערך ע"י התובע בכ-432 מיליון ש"ח.

16. בחודש דצמבר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה (ושתי מפעילות סלולריות נוספות) לבית המשפט המחוזי בתל אביב, על ידי תובעים, אשר לטענתם גרים בסמוך לאתרי בסיס של הנתבעות, אשר לטענת התובעים נבנו בניגוד לחוק. התובעים טוענים שהנתבעות יצרו מפגעים סביבתיים על ידי בניה לא חוקית של אתרי בסיס ולפיכך הם דורשים שהנתבעות יפצו את הציבור בגין נזקים (למעט נזקים אישיים כגון ירידת ערך רכוש ו/או נזקים בריאותיים אשר אינם כלולים בתביעה הייצוגית הנטענת), יהרסו אתרי בסיס לא חוקיים קיימים וימנעו מבניה לא חוקית של אתרי בסיס חדשים. במידה ותאושר התביעה כתובענה ייצוגית, הפיצוי הנתבע מהנתבעות (ללא חלוקת הסכום בין הנתבעות) הוערך ע"י התובעים בכ-1 מיליארד ש"ח.

17. בחודש דצמבר 2007, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי באזור המרכז, על ידי תובעים הטוענים שהינם מנויים של החברה, בנוגע לסכומים שהחברה לכאורה גבתה ביתר, כאשר החברה העלתה את תעריפיה במספר תוכניות חיוב. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע הוערך ע"י התובעים בכ-44 מיליון ש"ח.

18. בחודש פברואר 2008, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי באזור המרכז, על ידי תובעים הטוענים שהינם מנויים של החברה, בנוגע לסכומים שהחברה גבתה ביתר, לכאורה, כאשר העלתה את תעריפיה לחבילות SMS. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע הוערך ע"י התובעים בכ-43 מיליון ש"ח.

19. בחודש מרס 2008, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי באזור המרכז, על ידי תובעים הטוענים שהינם מנויים של החברה. בנוגע לטענה כי החברה חייבה שלא כדין את מנוייה בגין שירות של פירוט שיחות. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע הוערך ע"י התובעים בכ-440 מיליון ש"ח.

20. בחודש אפריל 2008, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי בתל אביב-יפו, על ידי תובעים הטוענים שהינם מנויים של החברה. בנוגע לטענה כי החברה חייבה ביתר מנויים מסוימים הזכאים להחזרים על פי ההסכמים שלהם עם החברה, בשל חישוב שגוי של ההחזרים. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע הוערך ע"י התובעים בכ-100 מיליון ש"ח.

21. בחודש מאי 2008, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה ושתי מפעילות סלולריות נוספות, לבית המשפט המחוזי בתל אביב-יפו, על ידי תובעים הטוענים שהינם מנויים של הנתבעות. בנוגע לטענה כי הנתבעות חייבו שלא כדין את מנוייהן בגין ניסיונות כושלים להקים שיחות מסוימות בזמן שהות המנויים בחו"ל. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע מכל שלוש הנתבעות הוערך ע"י התובעים בכ-50 מיליון ש"ח, מבלי לפרט את הסכום המיוחס לחברה.

באור 28 - התחייבויות תלויות (המשך)

א. התחייבויות תלויות (המשך)

22. בחודש יולי 2008, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי בתל אביב-יפו, על ידי תובע הטוען שהינו מנוי של החברה. בנוגע לטענה כי החברה הטעתה וחייבה ביתר מנויים מסויימים, בנוגע לחבילות זמן אויר. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע מוערך ע"י התובע בכ-72 מיליון ש"ח.

23. בחודש יולי 2008, הוגשה תביעה ובקשה לאשר אותה כתובענה ייצוגית כנגד החברה, לבית המשפט המחוזי בתל אביב-יפו, על ידי תובע הטוען שהינו מנוי של החברה. בנוגע לטענה כי החברה הטעתה וחייבה שלא כדין את מנוייה בגין שרותי השלמת שיחה מסויימים, למרות שלא נעשה בהם שימוש. במידה ותאושר התביעה כתובענה ייצוגית, הסכום הנתבע הוערך ע"י התובע בכ-179 מיליון ש"ח.

24. נגד החברה הוגשו מספר תביעות ובקשות לאשר אותן כתובענות ייצוגיות על ידי תובעים שונים בגין טענות שונות, שבמידה ויאושרו התביעות כתובענות ייצוגית, הסכום המצטבר הנתבע הוערך ע"י התובעים בכ-57 מיליון ש"ח.

25. בין החברה ומשרד התקשורת קיימת מחלוקת לגבי הסכומים שאמורה החברה לשלם בגין אגרות תדרי GSM ותדרי UMTS. הסכום במחלוקת ליום 31 בדצמבר 2008 עומד על סך של כ- 71 מיליון ש"ח (כולל ריביות והפרשי הצמדה למדד). עד להחלטה סופית בעניין הפקידה החברה בידי משרד התקשורת כמחצית מקרן הסכום הזה, אך לא רשמה את הסכום המופקד כהוצאה בדוחותיה הכספיים החברה פנתה לבית המשפט בעניין זה.

26. בחודש אפריל 2005, הוגשה לבית המשפט המחוזי בתל-אביב יפו תביעה נגד החברה על ידי אחד ממשווקיה ויבואניה המורשים לשעבר, בטענה שהחברה הפרה את הסכם ההתקשרות ביניהם בסכום של 28 מיליון ש"ח (שהופחת לצרכי אגרה מסכום של כ- 38 מיליון ש"ח).

27. החברה התחייבה לשפות נושאי משרה וכן עובדים ספציפיים נוספים של החברה, בגין אירועים מסוימים המפורטים בכתבי השיפוי שהוענקו להם. סכום השיפוי המצטבר שישולם לכל נושאי המשרה והעובדים האחרים שלהם ניתנו או שינתנו להם כתבי שיפוי כאמור, מוגבל לסך כל תגמולי הביטוח שתקבל החברה מחברת ביטוח בתוספת סכום השווה ל- 30% מההון העצמי של החברה לפי דוחותיה הכספיים ליום 31 בדצמבר, 2001, דהיינו סכום של 486 מיליון ש"ח, כשהוא מותאם לעלייה במדד המחירים לצרכן.

28. בחודש ינואר 2007, הוגש כתב תביעה על סך של כ-35 מיליון ש"ח נגד החברה במסגרת הליך בוררות ע"י תובע, אשר היה קשור בהסכם עם החברה לפיו הזמין התובע שירותי רט"ן ושיווק אותם ללקוחותיו, בטענה, בין השאר, כי החברה הפרה הסכמים בין הצדדים והעלאת טענות בדבר אופן התנהלותה של החברה. החברה דחתה את כל הטענות שהועלו כלפיה ע"י התובע.

29. בחודש דצמבר 2007, קיבלה החברה עתירה שהוגשה לבית הדין הגבוה לצדק כנגד שר התקשורת ומפעיל סלולרי נוסף. העתירה מבקשת להחיל באופן רטרואקטיבי את התיקון לרישיון הכללי של המפעילים הסלולריים מספטמבר 2007, אשר מונע מהחברה להציע למנויים תוכניות תעריפים הכוללות חיוב זמן אויר ביחידות שאינן יחידת זמן האוויר הבסיסית, ולחילופין, לבטל רטרואקטיבית כל חיוב אשר יוטל על מנויים בעת מעבר, לפני תום תקופת ההתחייבות, לתוכניות תעריפים המבוססות על יחידת זמן האוויר הבסיסית. החברה ומפעיל סלולרי נוסף הוספו כמשיבים פורמאליים. בית המשפט הורה למשרד התקשורת בלבד להעביר את תגובתו. בתגובתו, מתנגד משרד התקשורת לעתירה.

ב. השפעות חקיקה ותקינה חדשה

שינויים בתקנות התקשורת (בזק ושידורים) היו כדלקמן:

א. החל מיום 1 בינואר 2009, יחידת הזמן הבסיסית לחיוב זמן אויר, לרבות לצורך קישור גומלין, הופחתה מיחידת זמן של 12 שניות ליחידת זמן של 1 שנייה.

ב. החל מיום 31 בדצמבר 2008, חויבה החברה בהתאם לרישיונה הכללי לקבוע תעריף קבוע, ללקוחות שאינם עסקיים, הנמצאים תחת התחייבות לרכוש את שירותי החברה לתקופה מוגדרת, למשך תקופה זו, משמע להגביל את יכולת החברה להעלות תעריפים ללקוחות אלו.

באור 28 - התחייבויות תלויות (המשך)

ג. שעבודים וערבויות

במסגרת הנפקת סדרות א ו-ב של אגרות החוב (ראה באור 14), התחייבה החברה לא ליצור שעבודים על נכסיה כל עוד לא נפרעו אגרות החוב במלואן, למעט שעבוד קבוע על נכסים לצורך הבטחת אשראי שיאפשר רכישת אותם נכסים.

ערבויות בנקאיות שניתנו על ידי החברה:

א. לממשלת ישראל (להבטחת ביצוע תנאי הרישיון)- 10 מיליון דולר ארה"ב.
ב. לממשלת ישראל (להבטחת ביצוע תנאי הרישיון של שותפות סלקום)- 10 מיליון ש"ח.
ג. לספקים ומוסדות ממשלתיים- 13 מיליון ש"ח .

באור 29 - צדדים קשורים ובעלי עניין

א. יתרות מאזניות

	31 בדצמבר 2008	31 בדצמבר 2007
	מיליוני ש"ח	מיליוני ש"ח
רכוש שוטף	74	-
התחייבויות שוטפות	8	-
התחייבות לז"א - אג"ח	255	142

ב. עסקאות עם צדדים קשורים ובעלי עניין מתבצעות במהלך העסקים הרגיל בתנאים מסחריים רגילים:

	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
הכנסות:		
הכנסות שוטפות	14	16
הוצאות:		
עלות מתן השרותים	61	38
אחרות	15	4

בנוגע להצעה לציבור של מניות החברה בבורסה בניו יורק ביום 9 בפברואר 2007, בעלי מניות בחברה (דסק"ש ו- Goldman Sachs International) שמכרו מניות במהלך ההצעה לציבור, החזירו לחברה את כל ההוצאות הכרוכות בהליך זה.

בחודש דצמבר 2007, החברה חתמה על הסכם למכירת נכס לחברת גב-ים לקרקעות בע"מ, אשר נמצאת תחת שליטת בעל מניות השליטה של החברה.

החברה נוהגת במהלך העסקים הרגיל, מעת לעת, לרכוש, לשכור, למכור ולשתף פעולה במכירת מוצרים ושירותים או להתקשר בעסקאות עם ישויות אשר הינן חברות בקבוצת אי.די.בי. או בעלי עניין או צדדים קשורים אחרים.

החברה בחנה עסקאות אלה ומאמינה כי הן בוצעו בתנאים מסחריים הדומים לאלה שהחברה יכלה להשיג מצדדים לא קשורים.

באור 29 - צדדים קשורים ובעלי עניין (המשך)

ג. הטבות לאנשי מפתח ניהוליים (לרבות דירקטורים)

המנהלים הבכירים בחברה זכאים, בנוסף לשכר, להטבות שלא במזומן (כגון: רכב, ביטוח רפואי וכדומה) ומפקידה עבורם כספים במסגרת תוכנית הטבה מוגדרת לאחר סיום העסקה.
החברה התחייבה לשפות את הדירקטורים שלה (ראה באור 28(א)(27)).

מנהלים בכירים משתתפים גם בתכנית כתבי אופציות למניות של החברה (ראה באור 17 בדבר תשלומים מבוססי מניות).

הטבות בגין העסקת אנשי מפתח ניהוליים (כולל דירקטורים) כוללות:

	לשנה שהסתיימה ביום 31 בדצמבר	
	2008	2007
	מיליוני ש"ח	מיליוני ש"ח
הטבות לעובדים לטווח קצר	6	6
תשלומים מבוססי מניות	10	11
	16	17

ד. הסכם עם דסק"ש

באוקטובר 2006, חתמה החברה על הסכם עם דסק"ש, אשר במסגרתו נקבע שדסק"ש תספק לחברה שירותי ייעוץ בתחומי הניהול, פיננסים, עסקים וחשבונאות בתמורה ל-2 מיליון ש"ח לשנה. התקשרות הצדדים בהסכם זה הינה לתקופה קצובה של שנה וההסכם יתחדש מאליו לתקופות נוספות בנות שנה כל אחת, אלא אם מי מהצדדים יודיע בכתב למשנהו, לפחות 60 ימים מראש, על אי חידוש ההסכם כאמור.

ה. הסכם עם נטוויז'ן 013 ברק

בחודש יולי 2007, התקשרה החברה בהסכם עם נטוויז'ן 013 ברק ("נטוויז'ן") לפיו נטוויז'ן תספק לחברה קישור גומלין ושירותי נדידה. בשנת 2008 ספקה נטוויז'ן לחברה שירותי קישור גומלין ושרותי נדידה בסכום של 29 מיליון ש"ח. ההסכם יתחדש מאליו מידי שנה.

באור 30 – ישויות הקבוצה

חברות בנות מהותיות

	שיעור הבעלות	
	2008	2007
סלקום תקשורת קווית שותפות מוגבלת	100	100
סלקום נכסים (2001) בע"מ	100	100
סלקום אחזקות (2001) בע"מ	100	100
IRAY B.V	100	100

באור 31 - הסבר בנוגע להשפעת המעבר ל- IFRS

כפי שצוין בבאור 2(א), הדוחות המאוחדים שהכינה החברה הינם הדוחות השנתיים המאוחדים הראשונים על פי IFRS, שפורסמו על ידי ה-IASB.

המדיניות החשבונאית המפורטת בבאור 3 יושמה בהכנת הדוחות המאוחדים לשנה שהסתיימה ביום 31 בדצמבר 2008, המידע ההשוואתי לשנה שהסתיימה ביום 31 בדצמבר 2007 ומאזן הפתיחה לפי IFRS ליום 1 בינואר 2007 ("מועד המעבר").

באור זה נערך על בסיס תקני IFRS הידועים כיום, אשר פורסמו ונכנסו לתוקף או הניתנים לאימוץ מוקדם במועד הדיווח השנתי הראשון של החברה לפי IFRS, 31 בדצמבר 2008, על בסיסם נקבעה המדיניות החשבונאית של החברה.

ההסבר אודות השפעת המעבר מכללי החשבונאות המקובלים בישראל לכללי ה-IFRS על מצבה הכספי של החברה, תוצאות פעילותה ותזרימי המזומנים שלה ניתן בטבלאות ובבאורים להלן.

<u>פירוט ההקלות שיושמו</u>

ההפרשות כוללות התחייבויות בגין סילוק נכסים. בעת ההכרה הראשונית של פריטי רכוש קבוע, החברה כוללת בעלות הנכס את כל העלויות שהחברה תצטרך לשאת בגין מחויבות לפירוק והעברה של הפריט והחזרת המצב לקדמותו באתר שבו ממוקם הנכס.

החברה הכירה בהתחייבות לפירוק והעברה של הפריט והחזרת המצב לקדמותו באתר שבו ממוקם הנכס לפי הוראות IAS 37 למועד המעבר. לצורך מדידת פריט הרכוש הקבוע, בהתאם להקלה הכלולה ב-IFRS 1 סעיף 25E, חישבה החברה את הסכום שהיה נכלל בעלות הפריט במועד בו ההתחייבות התהוותה לראשונה, על ידי היוון סכום ההתחייבות כאמור בשיעור היוון היסטורי.

באור 31 - הסבר בנוגע להשפעת המעבר ל- IFRS (המשך)

התאמת המאזן

		1 בינואר 2007					31 בדצמבר 2007	
				השפעת המעבר ל-IFRS				
	באור	כללי החשבונאות המקובלים בישראל כפי שדווחו לפני אימוץ תקני חשבונאות חדשים בישראל בשנת 2007 מיליוני ש"ח	השפעות שקיבלו ביטוי במסגרת אימוץ תקני חשבונאות חדשים בישראל בשנת 2007 מיליוני ש"ח	כללי החשבונאות המקובלים בישראל כפי שדווחו לאחר אימוץ תקני חשבונאות חדשים בישראל בשנת 2007 מיליוני ש"ח	השפעות אחרות בנוגע ליישום ה-IFRS מיליוני ש"ח	IFRS מיליוני ש"ח	כללי החשבונאות המקובלים בישראל מיליוני ש"ח	השפעת המעבר ל-IFRS מיליוני ש"ח	IFRS מיליוני ש"ח
נכסים									
מזומנים ושווי מזומנים		56	-	56	-	56	911	-	911
לקוחות		1,242	-	1,242	-	1,242	1,385	-	1,385
חייבים ויתרות חובה, כולל נגזרים	א,ב	123	-	123	(50)	73	133	(37)	96
מלאי		131	-	131	-	131	245	-	245
סה"כ נכסים שוטפים		**1,552**	**-**	**1,552**	**(50)**	**1,502**	**2,674**	**(37)**	**2,637**
חייבים ויתרות חובה לזמן ארוך	ג	526	-	526	21	547	545	30	575
רכוש קבוע, נטו	ג,ד	2,390	165	2,555	(23)	2,532	2,368	(33)	2,335
נכסים בלתי מוחשיים, נטו	ד	458	237	695	-	695	685	-	685
סה"כ נכסים בלתי שוטפים		**3,374**	**402**	**3,776**	**(2)**	**3,774**	**3,598**	**(3)**	**3,595**
סה"כ נכסים		**4,926**	**402**	**5,328**	**(52)**	**5,276**	**6,272**	**(40)**	**6,232**

באור 31 - הסבר בנוגע להשפעת המעבר ל- IFRS (המשך)

התאמת המאזן (המשך)

		1 בינואר 2007					31 בדצמבר 2007	
				השפעת המעבר ל-IFRS				
	באור	כללי החשבונאות המקובלים בישראל כפי שדווחו לפני אימוץ תקני חשבונאות חדשים בישראל בשנת 2007	השפעות שקיבלו ביטוי במסגרת אימוץ תקני חשבונאות חדשים בישראל בשנת 2007	כללי החשבונאות המקובלים בישראל כפי שדווחו לאחר אימוץ תקני חשבונאות חדשים בישראל בשנת 2007	השפעות אחרות בנוגע ליישום ה-IFRS	IFRS	כללי החשבונאות המקובלים בישראל	השפעת המעבר ל-IFRS	IFRS
		מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
התחייבויות									
אשראי לזמן קצר		-	-	-	-	-	353	-	353
ספקים והוצאות לשלם	ו	819	-	819	(44)	775	1,007	(54)	953
התחייבויות מס שוטפות	ה	-	-	-	117	117	-	122	122
הפרשות	ו	-	-	-	81	81	-	91	91
זכאים ויתרות זכות, כולל נגזרים	ה,ו	496	-	496	(154)	342	543	(159)	384
סה"כ התחייבויות שוטפות		**1,315**	**-**	**1,315**	**-**	**1,315**	**1,903**	**-**	**1,903**
הלוואות לזמן ארוך מתאגידים בנקאיים		1,208	-	1,208	-	1,208	343	-	343
אגרות חוב		1,989	-	1,989	-	1,989	2,983	-	2,983
הפרשות		-	-	-	12	12	-	14	14
זכאים ויתרות זכות לזמן ארוך	ד	2	12	14	(12)	2	17	(14)	3
מיסים נדחים	א,ב,ד,ז	105	105	210	(57)	153	196	(47)	149
סה"כ התחייבויות שאינן שוטפות		**3,304**	**117**	**3,421**	**(57)**	**3,364**	**3,539**	**(47)**	**3,492**
סה"כ התחייבויות		**4,619**	**117**	**4,736**	**(57)**	**4,679**	**5,442**	**(47)**	**5,395**
הון עצמי									
הון מניות		1	-	1	-	1	1	-	1
קרנות הון	ח	(24)	-	(24)	-	(24)	(4)	(29)	(33)
דיבידנד שהוכרז לאחר תאריך המאזן	י	-	-	-	-	-	700	(700)	-
עודפים	א,ג,ד,ח,י	330	285	615	5	620	133	736	869
סה"כ הון עצמי		**307**	**285**	**592**	**5**	**597**	**830**	**7**	**837**
סה"כ התחייבויות והון עצמי		**4,926**	**402**	**5,328**	**(52)**	**5,276**	**6,272**	**(40)**	**6,232**

באור 31 - הסבר בנוגע להשפעת המעבר ל- IFRS (המשך)

התאמת הרווח

		לשנה שהסתיימה ביום 31 בדצמבר 2007		
	באור	כללי החשבונאות המקובלים בישראל מיליוני ש"ח	השפעת המעבר ל-IFRS מיליוני ש"ח	IFRS מיליוני ש"ח
הכנסות ממכירות ושירותים		6,050	**-**	6,050
עלות המכירות והשירותים	א	3,372	**5**	3,377
רווח גולמי		2,678	**(5)**	2,673
הוצאות מכירה ושיווק		685	**-**	685
הוצאות הנהלה וכלליות	ג	652	**1**	653
הוצאות אחרות	יא	-	**3**	3
רווח מפעולות רגילות		1,341	**(9)**	1,332
הוצאות מימון		(287)	**-**	(287)
הכנסות מימון	א	131	**9**	140
עלויות מימון, נטו		(156)	**9**	(147)
הוצאות (הכנסות) אחרות	יא	3	**(3)**	-
רווח לפני מיסים על הכנסה		1,182	**3**	1,185
מיסים על ההכנסה	א	309	**1**	310
רווח נקי		873	**2**	875
רווח למניה				
רווח בסיסי למניה (בש"ח)		8.95	**0.02**	8.97
רווח מדולל למניה (בש"ח)		8.87	**0.02**	8.89

באור 31 - הסבר בנוגע להשפעת המעבר ל- IFRS (המשך)

א. בהתאם לכללי החשבונאות המקובלים בישראל, לא נדרשת הפרדה של נגזרים משובצים כפי שנדרשת בהתאם ל-IFRS. השפעת יישום ה- IFRS לימים 1 בינואר 2007 התבטאה בגידול בחייבים ויתרות חובה בסך של כ-10 מיליון ש"ח, גידול במסים נדחים לשלם בסך של כ-3 מיליון ש"ח, וגידול ביתרת העודפים בסך של כ-7 מיליון ש"ח (נטו ממס). השפעת יישום ה- IFRS ליום 31 בדצמבר 2007 התבטאה בגידול בחייבים ויתרות חובה בסך של כ-14 מיליון ש"ח, גידול במסים נדחים לשלם בסך של כ-4 מיליון ש"ח וגידול ביתרת העודפים בסך של כ-10 מיליון ש"ח (נטו ממס). כמו כן, עלות המכירות גדלה בסך של כ-5 מיליון ש"ח לשנה שהסתיימה ביום 31 בדצמבר 2007. הכנסות המימון גדלו בסך של 9 מיליון ש"ח לשנה שהסתיימה ביום 31 בדצמבר 2007. הוצאות המס גדלו בסך של כ-1 מיליון ש"ח לשנה שהסתיימה ביום 31 בדצמבר 2007.

ב. בהתאם לכללי החשבונאות המקובלים בישראל, נכסי והתחייבויות מיסים נדחים סווגו כנכסים או התחייבויות שוטפים או בלתי שוטפים, בהתאם לסיווג הנכסים או ההתחייבויות בגינם הם נוצרו. בהתאם ל- IFRS, נכסי מיסים נדחים מסווגים כנכסים או התחייבויות בלתי שוטפים, גם אם מועד מימושם חזוי להיות בזמן הקצר. בהתאם לכך, עם יישום ה- IFRS, מוינה יתרת נכסי המיסים הנדחים לזמן קצר לימים 1 בינואר 2007 ו-31 בדצמבר 2007 בסך של כ-60 מיליון ש"ח וכ-51 מיליון ש"ח, בהתאמה, מסעיף חייבים ויתרות חובה במסגרת הנכסים השוטפים לסעיף התחייבויות מיסים נדחים במסגרת ההתחייבויות לזמן ארוך.

ג. בהתאם לכללי החשבונאות המקובלים בישראל, קרקעות החכורות ממנהל מקרקעי ישראל ("המנהל") מסווגות כרכוש קבוע ואינן מופחתות. בהתאם ל-IFRS, במקרים בהם קרקעות אלה אינן נחשבות לקרקעות בבעלות החברה, תשלומי החכירה מסווגים בסעיף חייבים לזמן ארוך ומופחתים לאורך תקופת החכירה, לרבות האופציה להארכת תקופת החכירה, במידה ובמועד ההתקשרות בחכירה היה וודאי באופן סביר שהאופציה תמומש. כתוצאה מכך, ליום 1 בינואר 2007, החברה רשמה גידול בחייבים לזמן ארוך של כ-21 מיליון ש"ח, קיטון ברכוש הקבוע של כ-23 מיליון ש"ח וקיטון בעודפים של כ-2 מיליון ש"ח. ליום 31 בדצמבר 2007 החברה רשמה גידול בחייבים לזמן ארוך של כ-30 מיליון ש"ח, קיטון ברכוש הקבוע של כ-33 מיליון ש"ח וקיטון בעודפים של כ-3 מיליון ש"ח. הפחתת דמי החכירה התבטאה בגידול בהוצאות ההפחתה בסך של כ-1 מיליון ש"ח בשנה שהסתיימה ביום 31 בדצמבר 2007.

ד. רכוש קבוע

1. בהתאם לכללי החשבונאות המקובלים בישראל, עד ליום 31 בדצמבר 2006, החברה לא הכירה בעלויות בגין התחייבות של פרוק וסילוק נכסים ושיקום אתרים, חנויות ומשרדים. החל מיום 1 בינואר 2007, החברה הפרישה בגין התחייבויות אלו. כתוצאה מהכרה לראשונה של התחייבויות אלו בגין פירוק אתרים, חל גידול של הערך בספרים נטו של הרכוש הקבוע. בנוסף, חל קיטון בעודפים בסך של כ-5 מיליון ש"ח.

2. בהתאם לכללי החשבונאות המקובלים בישראל, עד ליום 31 בדצמבר 2006, הופחתו פריטי רכוש קבוע בשיעור אחיד, מבלי להבחין בין מרכיביהם. החל מיום 1 בינואר 2007, החברה פיצלה רטרואקטיבית את פריטי רכוש קבוע למרכיביהם לפי אורך החיים השימושיים שלהם אשר שונה מכלל רשת התקשורת, בעיקר ציוד תמסורת, כגון: סיבים אופטיים ותשתית. הוצאות פחת מבוססות על אורך השימוש של כל רכיב. היישום מחדש של השינוי הגדיל את יתרת העודפים ליום 1 בינואר 2007 בסך של כ-290 מיליון ש"ח.

ה. בהתאם לכללי החשבונאות המקובלים בישראל, התחייבויות בגין מיסים שוטפים סווגו בסעיף זכאים ויתרות זכות לזמן קצר. בהתאם ל-IFRS, התחייבויות בגין מיסים שוטפים מסווגים כסעיף נפרד בהתחייבויות השוטפות. לפיכך, עם יישום ה-IFRS, מוינה יתרת התחייבויות בגין מיסים שוטפים לימים 1 בינואר 2007 ו-31 בדצמבר 2007 בסך של 117 מיליון ש"ח ו-122 מיליון ש"ח, בהתאמה, מסעיף זכאים ויתרות זכות לזמן קצר לסעיף התחייבויות מיסים שוטפים במסגרת ההתחייבויות השוטפות.

ו. בהתאם לכללי החשבונאות המקובלים בישראל, הפרשות לזמן קצר ולזמן ארוך סווגו בסעיפים ספקים והוצאות לשלם, זכאים ויתרות זכות לזמן קצר או זכאים ויתרות זכות לזמן ארוך, בהתאם למהות הפרשה. בהתאם ל-IFRS, הפרשות לזמן קצר מוצגות כסעיף נפרד בהתחייבויות השוטפות. לפיכך, עם יישום ה-IFRS, לימים 1 בינואר 2007 ו-31 בדצמבר 2007: יתרת הספקים והוצאות לשלם קטנה בסך של 44 מיליון ש"ח ו-54 מיליון ש"ח, בהתאמה; יתרת הזכאים ויתרות זכות לזמן קצר קטנה בסך של 37 מיליון ש"ח ו-37 מיליון ש"ח, בהתאמה; ויתרת ההפרשות לזמן קצר גדלה בסך של 81 מיליון ש"ח ו-91 מיליון ש"ח, בהתאמה. בנוסף, בהתאם ל-IFRS, הפרשות לזמן ארוך מוצגות כסעיף נפרד בהתחייבויות לזמן ארוך. לפיכך, עם יישום ה-IFRS, גדלה יתרת ההפרשות לזמן ארוך וקטנה יתרת הזכאים ויתרות זכות לזמן ארוך לימים 1 בינואר 2007 ו-31 בדצמבר 2007 בסך של 12 מיליון ש"ח ו-14 מיליון ש"ח, בהתאמה.

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ז. ההתחייבות למיסים נדחים המוצגת להלן השתנתה בהתבסס על השינויים המוזכרים לעיל. השינויים במיסים הנדחים חושבו על בסיס שיעור המס הצפוי במועד ההיפוך של ההפרשים הזמניים:

	באור	1 בינואר 2007 מיליוני ש"ח	31 בדצמבר 2007 מיליוני ש"ח
רכוש קבוע, נטו	ד	105	-
חייבים ויתרות חובה	א	3	4
התחייבויות מיסים נדחים	ב	(60)	(51)
		48	**(47)**

ח. בהתאם לכללי החשבונאות המקובלים בישראל, הוצאות בגין עסקאות תשלום מבוסס מניות הוכרו כנגד קרן הון בהון העצמי. בהתאם ל-IFRS, ועל בסיס המדיניות החשבונאית שאימצה החברה, החברה בחרה לסווג מחדש את קרן ההון ליתרת העודפים. בהתאם לכך, יתרת קרן ההון ליום 31 בדצמבר 2007 ירדה בסך של כ-29 מיליון ש"ח ויתרת העודפים עלתה בסך של כ-29 מיליון ש"ח.

ט. השפעת ההתאמות האמורות (נטו ממס) על יתרת העודפים:

	באור	1 בינואר 2007 מיליוני ש"ח	31 בדצמבר 2007 מיליוני ש"ח
רכוש קבוע, נטו	ד	285	-
חייבים ויתרות חובה	א	7	10
קרקע בחכירה ממנהל מקרקעי ישראל	ג	(2)	(3)
סיווג קרן הון הנובעת מתשלומים מבוססי מניות	ח	-	29
דיבידנד שהוכרז לאחר תאריך המאזן	יא	-	700
		290	**736**

י. בהתאם לכללי החשבונאות המקובלים בישראל, דיבידנד שהוכרז לאחר תאריך המאזן ועד לתאריך אישור הדוחות הכספיים הוצג במסגרת ההון העצמי כסעיף נפרד בשם "דיבידנד שהוכרז לאחר תאריך המאזן", כנגד קיטון ביתרת העודפים. בהתאם ל-IFRS, יש לתת גילוי בלבד בדבר דיבידנד כאמור ולא לבצע כל סיווג בהון. בהתאם לכך, ליום 31 בדצמבר 2007 גדלה יתרת העודפים והוקטן הדיבידנד שהוכרז לאחר תאריך המאזן שהוצג בהון העצמי בסך של כ-700 מיליון ש"ח, בהתאמה.

יא. בהתאם לכללי החשבונאות המקובלים בישראל, בדוח הרווח וההפסד רווחים והפסדים ממכירת רכוש קבוע והכנסות/הוצאות אחרות לא הוצגו במסגרת הרווח התפעולי. בהתאם ל-IFRS, פריטים אלו נכללים ברווח התפעולי. השפעת יישום ה-IFRS לשנה שהסתיימה ב-31 בדצמבר 2007 מתבטאת בסיווג מחדש של פריטים אלה והכללתם ברווח התפעולי, כהוצאה בסך של 3 מיליון ש"ח.

יב. הסבר לתיאומים המהותיים לדוח תזרים המזומנים

1. ריבית שהתקבלה מהשקעות בסך של 23 מיליון ש"ח במהלך השנה שהסתיימה ביום 31 בדצמבר 2007, מסווגת כתזרימי מזומנים מפעילות השקעה לפי תקני דיווח כספי בינלאומיים, אך נכללו תחת תזרימי מזומנים מפעילות שוטפת בהתאם לכללי חשבונאות קודמים.

2. ריבית ששולמה בסך של 177 מיליון ש"ח במהלך השנה שהסתיימה ביום 31 בדצמבר 2007, מסווגת כתזרימי מזומנים מפעילות מימון לפי תקני דיווח כספי בינלאומיים, אך נכללו תחת תזרימי מזומנים מפעילות שוטפת בהתאם לכללי חשבונאות קודמים.

3. תשלומים בגין חוזי גידור לרכוש קבוע, בהתאם לחשבונאות גידור, בסך של 12 מיליון ש"ח במהלך השנה שהסתיימה ביום 31 בדצמבר 2007, מסווגים כתזרימי מזומנים מפעילות השקעה לפי תקני דיווח כספי בינלאומיים, אך נכללו תחת תזרימי מזומנים מפעילות שוטפת בהתאם לכללי חשבונאות קודמים.

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יב. הסבר לתיאומים המהותיים לדוח תזרים המזומנים (המשך)

4. תשלומים בגין חוזי גידור למלאי, בהתאם לחשבונאות גידור, בסך של 24 מיליון ש"ח במהלך השנה שהסתיימה ביום 31 בדצמבר 2007, מסווגים כשורה נפרדת בתזרימי מזומנים מפעילות שוטפת לפי תקני דיווח כספי בינלאומיים, אך נכללו כשינויים בסעיפי רכוש והתחייבות בהתאם לכללי חשבונאות קודמים.

5. תשלומים בגין מכשירים נגזרים, נטו, בסך של 16 מיליון ש"ח במהלך השנה שהסתיימה ביום 31 בדצמבר 2007, מסווגים כשורה נפרדת בתזרימי מזומנים מפעילות שוטפת וסך של 10 מיליון ש"ח מסווגים כשורה נפרדת בתזרימי מזומנים מפעילות מימון לפי תקני דיווח כספי בינלאומיים, אך נכללו כשינויים בסעיפי רכוש והתחייבות בהתאם לכללי חשבונאות קודמים.

לא קיימים הבדלים מהותיים נוספים בין הדוח על תזרימי המזומנים המוצג בהתאם לתקני דיווח כספי בינלאומיים ובין הדוח על תזרימי המזומנים המוצג בהתאם לכללי חשבונאות קודמים.