Cellcom Israel Ltd.
Form 424B1
February 06, 2007

Table of Contents

Filed Pursuant to Rule 424(b)(1)
Registration No. 333-140030
and 333-140465

20,000,000 Ordinary Shares
Cellcom Israel Ltd.
Ordinary Shares

This is an initial public offering of ordinary shares of Cellcom Israel Ltd.

The selling shareholders identified in this prospectus are offering 20,000,000 ordinary shares to be sold in the offering. We will not receive any of the proceeds from the offering.

Prior to this offering, there has been no public market for the ordinary shares. The initial public offering price per ordinary share is $20.00. We have been authorized to list our ordinary shares on the New York Stock Exchange under the symbol CEL.

See Risk Factors on page 10 to read about factors you should consider before buying the ordinary shares.

Neither the Securities and Exchange Commission nor any other regulatory body, including any state securities regulators, has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$ 20.00	$ 400,000,000
Underwriting discounts and commissions	$ 1.30	$ 26,000,000
Proceeds, before expenses, to the selling shareholders	$ 18.70	$ 374,000,000

To the extent that the underwriters sell more than 20,000,000 ordinary shares, the underwriters have the option to purchase up to an additional 3,000,000 ordinary shares from the selling shareholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on February 9, 2007.

Bookrunners

Goldman, Sachs & Co. **Citigroup** **Deutsche Bank Securities**

Joint-Lead Manager
Merrill Lynch & Co.

Co-Managers

Jefferies & Company **William Blair & Company**

February 5, 2007

Table of Contents

TABLE OF CONTENTS

	Page
Presentation of Financial Information	ii
Trademarks	ii
Industry and Market Data	ii
Prospectus Summary	1
Risk Factors	10
Special Note Regarding Forward-Looking Statements	24
Exchange Rate Information	25
Use of Proceeds	26
Dividend Policy	26
Capitalization	29
Dilution	30
Selected Consolidated Financial Data	31
Operating and Financial Review and Prospects	35
The Telecommunications Industry in Israel	67
Business	71
Regulatory Matters	91
Management	101
Certain Relationships and Related Party Transactions	113
Principal and Selling Shareholders	116
Description of Share Capital	119
Taxation	124
Shares Eligible for Future Sale	129
Underwriting	132
Expenses Related to the Offering	137
Validity of Ordinary Shares	137
Experts	137
Enforceability of Civil Liabilities	137
Where You Can Find More Information	138
Index to Consolidated Financial Statements	F-1

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

You should rely only on the information contained in this prospectus and in any free writing prospectus which we file with the Securities and Exchange Commission. We have not authorized anyone to provide you with information different from that contained in this prospectus or such free writing prospectus. The selling shareholders are offering to sell, and seeking offers to buy, ordinary shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the ordinary shares.

Until March 2, 2007, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in Israel, or Israeli GAAP, and, unless otherwise indicated, all financial data and discussions related to such data are based upon financial statements prepared in accordance with Israeli GAAP. The principal differences between the accounting principles applied by us under Israeli GAAP and generally accepted accounting principles in the United States, or U.S. GAAP, are discussed in note 28 to our consolidated annual financial statements included elsewhere in this prospectus.

Unless we indicate otherwise, U.S. dollar translations of the NIS amounts presented in this prospectus are translated using the rate of NIS 4.302 to $1.00, the representative rate of exchange as of September 30, 2006 as published by the Bank of Israel.

TRADEMARKS

We have proprietary rights to trademarks used in this prospectus 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 prospectus belongs to its respective holder.

INDUSTRY AND MARKET DATA

This prospectus 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 prospectus that were taken or derived from these industry publications.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before deciding to invest in our ordinary shares. You should read this entire prospectus carefully, including the Risk Factors section and the consolidated financial statements and the notes to those statements.

CELLCOM

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues and EBITDA for the nine months ended September 30, 2006. 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 September 30, 2006, we provided services to approximately 2.83 million subscribers in Israel with an estimated market share of 34.4%. Our closest competitors had market shares of 31.9% and 28.7%, respectively. In the nine-month period ended September 30, 2006, we generated revenues of NIS 4.2 billion ($974 million), EBITDA of NIS 1.4 billion ($322 million), and operating income of NIS 762 million ($177 million). See note 3 to the Summary Consolidated Financial and Other Data for a definition of EBITDA. We incurred significant debt in late 2005 and early 2006, which has resulted in increased financial expenses for us. Our long-term debt at September 30, 2006 was approximately NIS 3.3 billion ($767 million).

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 landline transmission and data services to business customers and telecommunications operators and, since July 2006, we offer landline telephony services to selected businesses.

Our History

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 Discount Investment Corporation Ltd., or DIC, a subsidiary of IDB Holding Corporation Ltd., or 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. IDB 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, IDB currently indirectly holds 78.5% of our share capital and voting rights in respect of an additional 5.5% of our share capital.

Following the acquisition by IDB in 2005, IDB 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 The Israeli Telecommunications Corporation Ltd., or Bezeq, the incumbent landline provider, Amos Shapira, our Chief Executive Officer, who had been CEO of Kimberly-Clark s Israeli subsidiary and El Al Airlines, and Tal Raz, our Chief Financial Officer, one of the founders and formerly a director of Partner Communications Ltd., or Partner, one of our principal

Table of Contents

competitors. Our new management team has already implemented a series of initiatives to drive revenues. In addition, between September 2005 and September 2006, while increasing the number of positions in units that deal directly with our customers (such as sales and service), which we call customer-facing positions, our new management reduced our overall workforce by over 2%, primarily through the elimination of over 16% of positions in units that do not deal directly with our customers, which we call non-customer facing positions. Contracts with our main suppliers were also renegotiated to reduce costs. Our management structure has also been rationalized by providing customer-facing executives with a direct reporting line to our CEO and through the merging of technology sub-units. Following the implementation of these initiatives, our revenues and operating income increased by approximately 9% and 24%, respectively, and our general and administrative expenses decreased by 5% in the first nine months of 2006 compared to the first nine months of 2005.

Our new management also faces a number of challenges. We operate in a highly regulated and competitive industry. Compliance with the provisions of our licenses and applicable laws and regulations governing our operation, as well as our need to comply with possible future changes to our license and applicable legislation, limits our freedom to conduct our business and can adversely affect our results of operations and financial condition. We may face claims of being in violation of regulatory requirements, including as to the implementation of number portability. We also face intense competition. Further, companies in our industry are exposed to a number of legal claims, including class actions, and recent legislation has made it easier to assert class actions. See Risk Factors.

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:

Unique combination of leading market position and strong operational momentum. In the last year, we have achieved market-leading subscriber and revenue growth while steadily strengthening our operating margins.

Strong and distinctive own brand. Our established brand enjoys strong recognition in Israel. Since 2004, we have made the enhancement of our image among consumers a top priority and have invested substantial resources to position Cellcom as a local cellular company.

Transmission infrastructure and landline services. We have an advanced fiber-optic transmission infrastructure that consists of approximately 1,300 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.

Strategic relationship with a leading group of local and international shareholders. 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. In 2006, our shareholder base was broadened as a result of IDB s sale of minority stakes to a series of highly regarded international and local financial investors, including affiliates of Goldman Sachs, Bank Leumi, Migdal Group and the First International Bank of Israel.

Strong management team. Since IDB 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.

Table of Contents

Strong cash flow generation. We have a proven track record of strong financial performance and profitability with cash operating margins that have been higher than those of our principal competitors. This performance has allowed us to distribute dividends to our shareholders.

Notwithstanding our strengths, we face intense competition in our industry from competitors with strong market shares, and our results of operations may be adversely affected by measures that we take to maintain our market share.

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, or ARPU. 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 and we believe that we have significant growth potential in this field. We intend to continue to invest in the deployment of our high speed UMTS/HSDPA network, which covered 80% of the populated territory of Israel at the end of 2006. We also plan to expand our content and data services, products and capabilities through in-house expertise and strategic relationships with leading cellular content providers.

Grow roaming revenues. We have experienced steady growth in roaming revenues since 2003 and believe that roaming presents an important source of future revenue and profit growth for us. We currently have GSM roaming agreements with over 450 operators in 167 countries, of which 45 operators in 27 countries are also 3G operators, and we aim to increase our number of relationships.

Further develop and strengthen the Cellcom brand. External market surveys that we have commissioned indicate that brand recognition has become an increasingly 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.

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. We intend to continue to focus on identifying further opportunities to manage our costs without reducing the quality of our service.

Capitalize on our existing infrastructure to selectively provide landline telephony services. Our 1,300 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.

Table of Contents

However, as we operate in a highly regulated industry, compliance with our licenses and applicable laws and regulations may limit our freedom to conduct our business and implement our strategies, and may thereby adversely affect our results of operations and financial condition.

Additional Information

Our principal executive offices are located at 10 Hagavish Street, Netanya, Israel 42140 and our telephone number is (972) 52-999-0052. Our website is www.cellcom.co.il. Information in or connected to our website is not part of this prospectus.

THE OFFERING

The offering	20,000,000 ordinary shares offered by the selling shareholders.
Ordinary shares to be outstanding after this offering	97,500,000 ordinary shares
Over-allotment option	The selling shareholders have granted the underwriters a 30-day option to purchase up to 3,000,000 ordinary shares to cover over- allotments.
Use of proceeds	We will not receive any proceeds from the offering.
Dividend policy	Our Board of Directors has adopted a dividend policy to distribute each year at least 75% of our annual net income, subject to applicable law, our license and our contractual obligations (which currently limit distribution of dividends) and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. 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. See Dividend Policy. We currently expect that the quarterly dividend we will declare for the first quarter of 2007, which may be funded out of a combination of net income, existing retained earnings and/or a portion of the approximately NIS 280 million of retained earnings described under Operating and Financial Review and Prospects Overview New Israeli accounting standard affecting measurement of fixed assets, will be NIS 1.4 per share. Any dividends must be declared by our Board of Directors, which will take into account the factors set out above. The amount of dividends per share we will pay for the first quarter does not necessarily reflect dividends that will be paid for future quarterly periods, which can change at any time in accordance with the policy described under Dividend Policy.
New York Stock Exchange symbol	CEL

Unless we specifically state otherwise, the information in this prospectus:

does not take into account the sale of up to 3,000,000 ordinary shares which the underwriters have the option to purchase from the selling shareholders to cover over-allotments;

does not take into account the exercise of any options to purchase ordinary shares, approximately 2.4 million of which are outstanding as of November 5, 2006 at an exercise price of $12.60 per share;

gives effect to a 10-for-1 share split and a distribution of approximately 84.5 ordinary shares to all shareholders for each outstanding ordinary share, both of which were effected on October 12, 2006 in order to avoid the need to issue fractional shares upon option exercise; and

assumes the amendment of our articles of association upon the completion of this offering.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the following summary consolidated financial data in conjunction with the section of this prospectus entitled Operating and Financial Review and Prospects and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

We prepare our consolidated financial statements in accordance with Israeli GAAP. The summary information also includes certain items in accordance with U.S. GAAP. Israeli GAAP differs in certain significant respects from U.S. GAAP. For a summary of the principal differences, see note 28 to our consolidated annual financial statements included elsewhere in this prospectus.

Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli consumer price index, or Israeli CPI. Accordingly, among other things, non-monetary items (such as fixed assets) were adjusted based on the changes in the Israeli CPI from the Israeli CPI published for the month in which the transaction relating to the asset took place up to the Israeli CPI at the date of the balance sheet. Starting January 1, 2004, the adjustment of financial statements for the impact of the changes in the purchasing power of the Israeli currency was discontinued. The adjusted amounts included in the financial statements as of December 31, 2003 constitute the starting point for the nominal financial report as of January 1, 2004. Any additions made from January 1, 2004 are included at their nominal values.

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented as of September 30, 2006, translated using the rate of NIS 4.302 to $1.00, the representative rate of exchange on September 30, 2006, as published by the Bank of Israel.

	Year Ended December 31,			Nine Months Ended September 30,		
	2003	**2004**	**2005**	**2005**	**2006**	**2006 (In $)**
	(In NIS millions, except per share data)					
Income Statement Data:						
Revenues	5,261	5,600	5,114	3,845	4,191	974
Cost of revenues	3,075	3,302	3,133	2,264	2,470	574
Gross profit	2,186	2,298	1,981	1,581	1,721	400
Selling and marketing expenses	613	661	623	453	473	110
General and administrative expenses	682	684	656	512	486	113
Operating income	891	953	702	616	762	177
Financial income (expenses), net	(216)	(45)	24	13	(128)	(30)
Other income (expenses), net	1	1	(11)	(10)	(1)	0
Income tax	245	292	232	201	243	56
Net income	431	617	483	418	390	91
Basic and diluted net income per share	4.42	6.33	4.95	4.29	4.00	0.93
	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000

Weighted average ordinary shares outstanding						
Dividends declared per share(1)			34.87		4.41	1.03
U.S. GAAP Income Statement Data(2)**:**						
Net income	441	620	491	460	374	87
Basic and diluted earnings	4.52	6.36	5.04	4.72	3.84	0.89

Table of Contents

	Year Ended December 31,			Nine Months Ended September 30,		
	2003	2004	2005	2005	2006	2006 (In $)
	(In NIS millions, except per share data)					
Other Data:						
EBITDA(3)	1,890	1,914	1,643	1,320	1,429	332
Subscribers (end of period)(4)	2,300	2,450	2,603	2,554	2,828	
Period churn rate(5)	27.3%	19.9%	15.0%	10.5%	12.4%	
ARPU (in NIS)(6)	162	174	151	154	152	35
Average monthly usage per subscriber (in minutes of use, or MOU)(7)	316	334	321	326	336	

	As of September 30, 2006
	(In NIS millions)
Balance Sheet Data:	
Cash	118
Working capital	180
Total assets	5,014
Shareholders equity	184
U.S. GAAP Data(2):	
Total assets	9,085
Shareholders equity	4,018

(1) All dividends declared were paid in cash in the first nine months of 2006.

(2) 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. See note 28 to our consolidated financial statements. 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 nine months ended and as at September 30, 2006 are not comparable with the data presented for the previous periods.

(3) 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 or, most recently, our provision for tax expenses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense and, until December 31, 2003, the effects of adjusting for changes in the general

purchasing power of the Israeli currency as discussed above). 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 prospectus, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

Table of Contents

The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(In NIS millions)				
Net income	431	617	483	418	390
Financial expense (income), net	216	45	(24)	(13)	128
Other expenses (income)	(1)	(1)	11	10	1
Income taxes	245	292	232	201	243
Depreciation and amortization	999	961	941	704	667
EBITDA	1,890	1,914	1,643	1,320	1,429

(4) 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 subscriber. We now believe that waiting six months to deduct subscribers is preferable since many subscribers that were inactive for three months become active again before the end of six months. As a result, commencing July 1, 2006, we adopted a six-month method of calculating our subscriber base, but 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 2003 and 2005 but in each case have not restated prior subscriber data to conform to the new presentation. We estimate that the change in methodology in 2003 led to a decrease in our reported subscriber numbers of approximately 300,000 and the change in methodology in 2005 led to an increase in our reported subscriber numbers of approximately 84,000.

(5) 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.

(6) 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:

Nine Months Ended

	Year Ended December 31,			September 30,		
	2003	2004	2005	2005	2006	2006 (In $)
	(In NIS millions, except number of subscribers and months)					
Revenues	5,261	5,600	5,114	3,845	4,191	974
less revenues from equipment sales	498	646	565	406	477	111
less other revenues*	22	21	38	26	43	10
adjustments to the Israeli CPI**	(62)					
Revenues used in ARPU calculation (in NIS millions)	4,803	4,933	4,511	3,413	3,671	853
Average number of subscribers	2,477,316	2,368,919	2,489,453	2,467,596	2,675,807	2,675,807
Months during period	12	12	12	9	9	9
ARPU (in NIS, per month)	162	174	151	154	152	35

* Other revenues includes revenues from repair services and transmission services.

Table of Contents

** Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli CPI. We reverse these adjustments in presenting ARPU.

If the methodology of calculating our subscriber base had not changed in July 2006, ARPU for the nine months ended September 30, 2006 would have been NIS 154, which is equal to ARPU for the corresponding period in 2005.

(7) 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. If the methodology of calculating our subscriber base had not changed in July 2006, MOU for the nine months ended September 30, 2006 would have been 339 minutes, which represents an increase of 4.0% compared with the corresponding period in 2005.

Table of Contents

RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this prospectus before deciding to invest in our ordinary shares. If any of the following risks actually occurs, our business, financial condition or results of operations would be likely to suffer. In such case, the trading price of our ordinary shares could decline, and you may lose all or part of your investment.

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 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. 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 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, limit our ability to vary charging units or otherwise intervene in the pricing policies for our products and services;
- regulate the termination of predefined term agreements, including requiring us to disconnect subscribers once the initial term expires;
- impose new safety or health-related requirements;
- impose additional restrictions on the construction and operation of cell sites;
- impose restrictions on the provision of content services;
- limit or otherwise intervene with the services or products that we may sell; or
- set higher service standards.

See Regulatory Matters 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.

Table of Contents

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 would permit our 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, currently none of the cellular or landline operators has implemented number portability. We, Pelephone Communications Ltd., or Pelephone, and Partner have filed a petition with the Israeli High Court of Justice for the issuance of an order to the Government of Israel and the Ministry of Communications to show cause for their failure to act immediately in order to initiate an amendment to the Communications Law postponing the deadline for the implementation of number portability. If a reasonable extension to the deadline is not effected or other adequate relief is not granted, we may be exposed to substantial sanctions and legal claims, including class actions by subscribers. See Business Legal Proceedings Purported class actions for additional details on a purported class action filed against us in that respect.

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 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 Regulatory Matters 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. As of September 30, 2006, we operated approximately 10.5% of our cell sites without building permits or applicable exemptions. Although, in relation to approximately 6.5% of our cell sites we are in the process of seeking to obtain building permits or to modify them to satisfy applicable exemptions, we may not be able to obtain all the necessary permits or make the necessary modifications. Approximately 23% 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 upon the exemption for radio access devices has been unsuccessfully challenged by local planning and building authorities in the courts. However, such challenges, and other claims asserting that those cell sites do not meet other legal requirements continue. In addition, we

Table of Contents

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 the microwave sites and repeaters has not, to date, been subject to judicial challenge. Operation of a cell site or other facility without a building permit or not in accordance with 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. Currently 27 cell sites are the subject of criminal proceedings; demolition orders have been granted with respect to eight cell sites while the remaining 19 cell sites are the subject of further litigation. Certain of our officers and directors are also named in a number of these criminal proceedings as defendants. 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 further demolition orders and we or our officers and directors may face further criminal charges.

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 Ministry of Environmental Protection 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 Ministry of Environmental Protection will not grant or renew our operating permits for those cell sites and other facilities. 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.

The draft Non-Ionizing Radiation Regulations published by the Ministry of Environmental Protection in November 2006 propose additional restrictions in relation to the operation of cell sites and other facilities. If these restrictions are adopted in their current draft format, they will, among other things, limit our ability to construct new sites and renew operating permits for a number of our existing sites, specifically in residential areas.

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 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.

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. To date, we have

provided over 35 indemnification letters to local planning and building committees. Calls upon our indemnities may have a material adverse effect on our financial condition and results of operations. Further, if we are required to make substantial payments under the indemnity letters, it could trigger a default under our credit facility. 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.

Finally, should the Israeli Planning and Building Law, 1965 be construed or amended to allow a longer period of limitation for depreciation claims than the current limitation period of three years from approval of the building plan, 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. 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 Regulatory Matters Handsets. Concerns regarding cell sites have already caused us difficulties in obtaining or renewing leases for cell sites. If health concerns over non-ionizing radiation increase, any adverse findings in new 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. See the discussion of the draft Non-Ionizing Radiation Regulations above in We may not be able to obtain permits to construct and operate cell sites. As a result, we may experience increased difficulty in obtaining leases for new cell site locations or renewing leases for existing locations (although, in total we have experienced renewal problems with less than 5% 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. We have not obtained insurance for these potential claims. An adverse outcome to, or settlement of, any 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 34.4% as of September 30, 2006, two of our competitors, Partner and Pelephone, enjoy estimated market shares of 31.9% and 28.7% respectively, with MIRS Motorola Communications Ltd., or MIRS, estimated to have a market share of 5%. The current competitive pressure in the Israeli market results primarily from the highly penetrated state of the market. See The Telecommunications

Table of Contents

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.

Any of the following developments in our market is expected to increase competition further and may result in a loss of subscribers, increased subscriber acquisition and retention costs and ultimately reduced profitability for us:

- the implementation of number portability, as it would eliminate one of the deterrents to switching between cellular operators;
- 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 has stated that once Bezeq s share of the Israeli landline telephone market falls below 85% (Bezeq does not publish its market share), it would be permitted to offer certain services jointly with its subsidiaries subject to regulatory limitations;
- the entry into the Israeli cellular market by mobile virtual network operators, or MVNOs, could increase competition and thus may adversely affect our revenues; the government has authorized an examination of the desirability of introducing MVNO operation in Israel; the findings and recommendations are expected to be published in May 2007; and
- a proposed amendment to the Israeli Restrictive Trade Practices Law, 1988 to grant the Commissioner of Restrictive Trade Practices broader authority to take action against oligopolies where there is insufficient competition, including the authority to issue orders to remove or to ease entry or transfer barriers, should the Commissioner conclude that this would increase competition; if the Commissioner were to decide that the Israeli cellular market was oligopolistic and insufficiently competitive, this could limit our freedom to manage our business, increase the competitive pressures that we face and adversely affect our results of operations.

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 that may materially adversely affect our results of operations.

Table of Contents

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 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 may increase the number of requests for approval 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, see Business Legal Proceedings.

We are subject to the risk of intellectual property rights claims against us, including in relation to innovations we develop ourselves. 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 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 offering calling plans that include handset subsidies to subscribers who purchase their handsets from the operators, unless the same terms are also offered to subscribers who purchase their handsets elsewhere. If such proposed changes are adopted, this would impair our ability to offer handsets to our subscribers at subsidized prices or in conjunction with attractive calling plans. 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 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.

Table of Contents

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, 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 Regulatory Matters 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 change. 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 satellite-based personal communications services, wireless broadband access services such as WiMAX, and other technologies that have the capacity to handle cellular calls may enter our market and compete with traditional cellular providers, thus further intensifying the competition we face requiring us to reduce prices, thus adversely affecting our results of operations.

Table of Contents

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 September 30, 2006, we had roaming arrangements with over 450 cellular providers in 167 countries around the world. However, as we cannot control the quality of the service that they provide, 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. 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.

In addition, in 2006, the European Union declared that it is considering regulating roaming tariffs. To our knowledge, following such declaration, several operators in Europe agreed to reduce roaming tariffs among themselves. Should such operators decide to reduce roaming tariffs with us as well, this could reduce the revenues we derive from our roaming services and 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 September 30, 2006, our total indebtedness was approximately NIS 3,588 million ($834 million). Our credit facility and the indentures governing our debentures currently permit us to incur additional indebtedness, subject to maintaining certain financial ratios and other restrictions contained in our credit facility. 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 prevailing interest rates, particularly because our debentures are linked to the Israeli CPI, and our credit facility bears interest at a variable rate;
- 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 freedom to operate our business is limited as a result of certain restrictive covenants contained in our credit facility and our indentures.

Our credit facility contains a number of restrictive covenants that limit our operating and financial flexibility. These covenants include, among other things, limitations on liens (also contained in the indentures governing our debentures), on the incurrence of indebtedness, on the provision of loans and guarantees and on acquisitions, dispositions of assets, mergers and other changes of control. Our credit facility also contains covenants regarding maintaining certain levels of financial ratios during the term of the facility, including as a condition to the distribution

Table of Contents

of dividends. Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. Such obligations may hinder our ability to finance our future operations or the manner in which we operate our business. In particular, any non-compliance with performance-related covenants and other undertakings of our credit facility and debentures could result in an acceleration of our outstanding debt under our credit facility and debentures and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition or results of operations. Further, our inability to maintain the financial ratios required under our credit facility for the distribution of dividends may limit our ability to distribute dividends.

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

A substantial amount of our cash payments are incurred in, or linked to, non-NIS currencies. In particular, in 2005 and the nine months ended September 30, 2006, payments in U.S. dollars or linked to the U.S. dollar represented approximately 19% and 27%, respectively, of total cash outflow. These payments included capital expenditures, cell site rental fees, payments to equipment suppliers and, in 2006, payments of principal and interest on our credit facility. As almost all of our cash receipts are in NIS, any devaluation of the NIS against those non-NIS currencies in which we make payments, particularly the U.S. dollar, will increase the NIS cost of our non-NIS denominated or linked expenses and capital expenditures.

We engage in currency hedging transactions to reduce the impact on our cash flows and results of operations of these currency fluctuations. We recognize freestanding derivative financial instruments as either assets or liabilities in our balance sheet and we measure those instruments at fair value. However, accounting for changes in the fair value of a derivative instrument, such as a currency hedging instrument, depends on the intended use of the derivative instrument and the resulting designation. For a foreign exchange derivative instrument designated as a cash flow hedge, the effective portion of the derivative instrument is initially reported as a component of our shareholders equity and subsequently recognized in our income statement as the hedged item affects earnings. For derivative instruments that are not designated as cash flow hedges, changes in fair value are recognized in our income statement without any reference to the change in value of the related budgeted expenditures. These differences could result in fluctuations in our reported net income on a quarterly basis.

Further, 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.

In February 2006, we adopted a dividend policy targeting a payout ratio of at least 75% of our net income under Israeli GAAP 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. Our credit facility limits our ability to pay dividends, including by limiting our distribution of dividends in respect of any financial year so that any distributions based on retained earnings accumulated since January 1, 2006, do not exceed the lesser of (a) 75% of our aggregate net income from January 1, 2006 to the date of distribution and (b) the aggregate eligible dividend amount from January 1, 2006 to the date of distribution, the eligible dividend amount being the lesser of (i) our net income for each financial year and (ii) the excess of free cash flow over 110% of total debt service for each financial year. In addition, we are also permitted to make distributions out of the expected approximately NIS 280 million ($65.1 million) adjustment to retained earnings referred to below in Operating and Financial Review and Prospects Overview New Israeli accounting standard affecting measurement of fixed assets. Our license requires that we and our 10%

shareholders maintain at least $200 million of combined shareholders equity. See 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.

Further, our dividend policy, to the extent implemented, will significantly restrict our 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 and term loan. 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, the market price of our shares may be negatively affected and the value of your 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 Israel provides our network system based on GSM/ GPRS/ EDGE technology, our UMTS/ HSDPA core system and related products and services; LM Ericsson Israel supplies our radio access network and related products and services based on UMTS/ HSDPA 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 recent 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 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 subsidiaries of IDB also operate in the Israeli communication market: Barak and Netvision provide high speed Internet and international telephone services and Globcall provides 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.

Table of Contents

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, terrorist violence in Israel has increased significantly and negotiations between Israel and Palestinian representatives have effectively ceased. The establishment in 2006 of a government in the Palestinian Authority by representatives of the Hamas militant group has created additional unrest and uncertainty in the region. Further, Israel was recently engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel. 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 Communication 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.

It may be difficult to enforce a U.S. judgment against our officers, our directors and us or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. All of our executive officers and directors reside outside the United States and all of our assets are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States, against us or any of these persons, in U.S. or Israeli courts based on the civil liability provisions of the U.S. federal securities laws. Additionally, it may be difficult for you to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel. See Enforceability of Civil Liabilities for additional discussion on your ability to enforce a civil claim against us, our executive officers or directors.

Risks Relating to this Offering

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

Following the completion of this offering DIC will hold, directly and indirectly, approximately 59% of our outstanding share capital. Pursuant to a shareholders agreement among DIC and certain of our minority shareholders, who in the aggregate own 5.5% of our ordinary shares, DIC has been granted 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 will be 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 will be denied the protection intended to be afforded by these corporate governance standards.

Table of Contents

Our share price may be extremely volatile and you may not be able to resell your shares at or above the initial public offering price.

Prior to this offering, there has been no public market for our ordinary shares in the United States or elsewhere. Negotiations between the underwriters and us will determine the initial public offering price and an active trading market for our shares may never develop or be sustained following this offering. As a result, the price determined by the underwriters and us may not be indicative of future market prices. Further, the stock market has from time to time experienced significant price and volume fluctuations. For example, any active trading market that does develop for our shares may depend, in part, on the research and reports that securities or industry analysts publish about our business or us. If no securities or industry analysts commence coverage of our Company, the trading price for our shares would be negatively affected. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us downgrades our shares, our share price would likely decline. If one or more of these analysts ceases to cover us or fails to publish regular reports on us, interest in the purchase of our shares could decrease, which could cause our share price or trading volume to decline. As a result of these factors, after this offering you might be unable to resell your shares at or above the initial public offering price.

A substantial number of our ordinary shares could be sold into the public market shortly after this offering, which could depress our share price.

The market price of our ordinary shares could decline as a result of sales by our existing shareholders of ordinary shares in the market after this offering or the perception that these sales could occur. Once a trading market develops for our ordinary shares, most of our shareholders will have an opportunity to sell their shares for the first time, following the expiration of the lock-up period agreed to between these shareholders and the underwriters. These factors could also make it difficult for us to raise additional capital by selling shares. Specifically, upon completion of this offering we will have 97,500,000 ordinary shares outstanding. This includes the 20,000,000 shares that the selling shareholders are selling in this offering, which may be resold in the public market immediately thereafter. The remaining shares will be able to be sold after this offering as described in the Shares Eligible for Future Sale section of this prospectus. See Shares Eligible for Future Sale for more information regarding these factors. In addition, we will have 2,500,000 shares reserved for issuance upon the exercise of outstanding options; the options are subject to vesting schedules but vesting will be accelerated upon certain events including any sale by IDB that leads to any reduction in IDB s ownership below 50.01%.

We will incur increased costs as a result of being a U.S. public company.

As a public company, we will incur significant legal, accounting, reporting and other expenses that we did not incur before listing on the NYSE. We expect the rules and regulations to which we will be subject as an NYSE-listed company to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, we may experience more difficulty attracting and retaining qualified individuals to serve on our Board of Directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a result of these requirements or the timing of such costs.

Table of Contents

We have not yet evaluated our internal control over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act.

Following the completion of this offering, we will be required to comply with the internal control evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act by the end of our 2007 fiscal year. We have only recently begun the process of determining whether our existing internal control over financial reporting systems is compliant with Section 404. If it is determined that we are not in compliance with Section 404, we may be required to implement new internal control procedures and re-evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as outside auditor fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to be compliant with Section 404. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in our conclusion that our internal controls over financial reporting are not effective.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions Prospectus Summary, Risk Factors, Operating and Financial Review and Prospects, Business and in other sections of this prospectus 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, believe, estimate, predict, potential or continue, the negative of these terms and other comparable terminology. T 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 Risk Factors. You should specifically consider the numerous risks outlined under Risk Factors.

Although we believe the expectations reflected in the forward-looking statements contained in this prospectus 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 prospectus to conform our prior statements to actual results or revised expectations, except as otherwise required by law.

Table of Contents

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	Low
	(NIS)	(NIS)
August 2006	4.408	4.357
September 2006	4.394	4.297
October 2006	4.302	4.238
November 2006	4.331	4.247
December 2006	4.234	4.176
January 2007	4.260	4.187

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)
2002	4.736
2003	4.512
2004	4.483
2005	4.503
2006	4.442

As of February 5, 2007, the daily representative rate of exchange between the NIS and the U.S. dollar as published by the Bank of Israel was NIS 4.254 to $1.00.

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

Table of Contents

USE OF PROCEEDS

We will not receive any proceeds from this offering.

DIVIDEND POLICY

Our board of directors adopted a dividend policy to distribute each year at least 75% of our annual net income determined under Israeli GAAP, 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. Our Board 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. For example, our Board 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, you 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 is subject to limitations under our credit facility and Israeli law:

Credit facility. Our credit facility limits our ability to pay dividends, including by limiting our distribution of dividends in respect of any financial year so that any distributions based on retained earnings accumulated since January 1, 2006, do not exceed the lesser of (a) 75% of our aggregate net income from January 1, 2006 to the date of distribution and (b) the aggregate eligible dividend amount from January 1, 2006 to the date of distribution, the eligible dividend amount being the lesser of (i) our net income for each financial year and (ii) the excess of free cash flow over 110% of total debt service for each financial year. In addition, we are also permitted to make distributions out of the expected approximately NIS 280 million ($65.1 million) adjustment to retained earnings referred to below in Operating and Financial Review and Prospects Overview New Israeli accounting standard affecting measurement of fixed assets. Once we have made the required principal repayment under the facility that is due on March 9, 2010, the aforesaid limitation may be replaced, at our option, with a new limitation on dividend distributions such that dividends to be distributed for the period between March 9, 2010 and the final repayment date may not exceed the difference between (a) the forecasted cash, cash equivalents and free cash flow (as defined in the facility, such forecast to be pre-approved by the lenders) for the period ending on the final repayment date (not to exceed our free cash flow for the equivalent period in the previous financial year), and (b) 110% of total debt service for the period commencing on the proposed dividend payment date and ending upon final repayment date.

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 NIS 4.859 billion ($1.13 billion) at September 30, 2006.

Prior to 2006, we had not distributed dividends. In January 2006, we distributed a dividend in the amount of NIS 1.7 billion ($395 million). In February 2006, we adopted our current dividend policy. From then through the date of this prospectus, we have distributed additional dividends in

Table of Contents

an aggregate amount of NIS 2.13 billion ($495 million), which, together with our distribution in January 2006, constitutes substantially all of our retained earnings from inception to December 31, 2005 and, for the first six months of 2006, substantially 75% of our net income in accordance with Israeli GAAP consistent with the new policy. Our Board of Directors has not yet determined the amount of dividends to be paid with respect to the third or fourth quarter of 2006. Our net income in the third quarter of 2006 under Israeli GAAP was NIS 120 million ($27.9 million). In addition, when we publish financial statements for the three-month period ended March 31, 2007, our retained earnings will be retroactively increased (effective January 1, 2007) by approximately NIS 280 million ($65.1 million) as a result of a change in Israeli accounting standards (see Operating and Financial Review and Prospects New Israeli accounting standard affecting measurement of fixed assets). Our Board of Directors will make a determination as to the dividend payments to be made with respect to the second half of 2006 and the first quarter of 2007, and from such increase in retained earnings following finalization of our financial results for the first quarter of 2007. In making the determination, our Board will take into account the considerations set forth above.

Had our existing policy been in effect for prior periods, we believe we would have been financially able to distribute 75% of our net income each year since 2003. Our principal cash needs, aside from operations, are debt service and capital expenditures. In each year since 2003, our cash generated by operating activities (which reflects a deduction for interest expense), less capital expenditures, was substantially in excess of 75% of our net income. Our cash generated by operating activities is higher than our net income because:

- we incur substantial non-cash depreciation and amortization expense that reduces our net income; and

- we have not typically required significant working capital; our customers generally pay us within 45 days of the end of each monthly billing cycle in which the service was provided, while most of our service providers accept payment on a delayed basis.

The following table compares our cash flow from operating activities less cash used in investing activities to amounts that may have been distributed had our existing policy been in effect at all times since January 1, 2003.

	Year Ended December 31,			Nine Months Ended September 30,
	2003	**2004**	**2005**	**2006**
		(In NIS millions)		
Net cash provided by operating activities	1,393	1,471	1,272	1,067
Net cash used in investing activities	(508)	(852)	(619)	(511)
Cash available for dividends(1)	885	619	653	556
Dividend distribution pursuant to current policy(2)	323	463	362	293

(1) We have not deducted cash used to make principal repayments of debt in determining cash available for dividends as we have been able to access the debt markets as needed in the past to refinance any existing debt coming due, and we anticipate that we will continue to be able to do so.

(2) Calculated as 75% of net income. Does not take into account contractual or other restrictions that may have been in effect at such times.

Based on our current expectations, we expect that we will continue for at least the next twelve months to generate net cash from operating activities in excess of 75% of our net income. However, our performance in future periods will depend on a variety of factors described under Risk Factors, many of which are beyond our control, including changes in the regulatory environment and competition.

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

Table of Contents

We currently expect that the quarterly dividend we will declare for the first quarter of 2007, which may be funded out of a combination of net income, existing retained earnings and/or a portion of the approximately NIS 280 million of retained earnings described under Operating and Financial Review and Prospects Overview New Israeli accounting standard affecting measurement of fixed assets, will be NIS 1.4 per share. Any dividends must be declared by our Board of Directors, which will take into account the factors set out above. The amount of dividends per share we will pay for the first quarter does not necessarily reflect dividends that will be paid for future quarterly periods, which can change at any time in accordance with the policy set out above.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2006. This table should be read in conjunction with Operating and Financial Review and Prospects and our consolidated financial statements and notes thereto appearing elsewhere in this prospectus.

	September 30, 2006
	(In NIS millions)
Total debt	3,588
Shareholders equity:	
Ordinary shares, NIS 0.01 par value per share, 300,000,000 shares authorized, 97,500,000 issued and outstanding	
Capital reserve	(20)
Retained earnings	204
Total shareholders equity	184
Total capitalization	3,772

Table of Contents

DILUTION

Our net tangible book value as of September 30, 2006 was NIS (281) million ($(65.3) million) or NIS (2.88) ($(0.67)) per ordinary share. Net tangible book value per share is determined by dividing our tangible net worth, total assets, less intangible assets, minus total liabilities, by the aggregate number of ordinary shares outstanding. As we will not receive any of the proceeds of this offering, our net tangible book value will not be affected by the offering. The offering of the ordinary shares at the initial public offering price of $20.00 per share represents an immediate dilution to purchasers of ordinary shares in the offering of $20.67 per share. The following table illustrates this per share dilution:

	NIS	$
Assumed initial public offering price	86.04	20.00
Net tangible book value per share as of September 30, 2006	(2.88)	(0.67)
Dilution per share to new investors	83.16	20.67

Dilution is determined by subtracting net tangible book value per share from the initial public offering price per share.

The following table sets forth, as of September 30, 2006, the number of ordinary shares purchased, the total consideration paid and the average price per share paid by our existing shareholders that are affiliated persons in transactions during the last five years. In addition, the table sets forth the number of ordinary shares to be sold in the offering by the selling shareholders, the total consideration and the average price per share to be paid by the purchasers in this offering, at the initial public offering price of $20.00 per share:

	Shares Purchased	Total Consideration Amount		Average Price per Share	
	Number	NIS	$	NIS	$
		(In millions)			
Existing shareholders who are affiliated persons(1)	67,761,645	6,269(2)	1,370	92.52	20.22
Purchasers in the offering	20,000,000	1,721	400	86.04	20.00

(1) Does not reflect dividends of NIS 39.3 ($9.13) per share paid in 2006.

(2) DIC paid the consideration in U.S. dollars. The consideration amount in NIS was calculated according to the exchange rate at the transaction date.

Sales by the selling shareholders in this offering will reduce the number of shares purchased by existing shareholders who are affiliated persons in the last five years to 48,736,645, or approximately 50.0%, (47.05% if the over-allotment option is exercised in full).

The tables above assume no exercise of outstanding share options. At September 30, 2006, there were no ordinary shares subject to outstanding options or warrants. However, in October and November 2006, we granted options in respect of approximately 2.4 million ordinary shares to our chairman, officers and senior employees, at an exercise price of NIS 54.21 ($12.60). We have not reflected the exercise of these options in the tables above. However, given the option exercise price of NIS 54.21 ($12.60), no further dilution will occur.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

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

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, 2005, 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 September 30, 2006 and December 31, 2005 and 2004, and for the nine-month period ended September 30, 2006 and for each of the years in the three-year period ended December 31, 2005, and the report thereon, are included elsewhere in this prospectus. 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 convenience translation of the consolidated financial statements as of and for the nine-month period ended September 30, 2006 and as of and for the year ended December 31, 2005 into US dollars solely for the convenience of the reader and, as explained below, reporting periods prior to January 1, 2004 have been adjusted for the changes in the general purchasing power of the Israeli currency.

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

Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli CPI. Accordingly, among other things, non-monetary items (such as fixed assets) were adjusted based on the changes in the Israeli CPI from the Israeli CPI published for the month in which the transaction relating to the asset took place up to the Israeli CPI at the date of the balance sheet. Starting January 1, 2004, the adjustment of financial statements for the impact of the changes in the purchasing power of the Israeli currency was discontinued. The adjusted amounts included in the financial statements as of December 31, 2003 constitute the starting point for the nominal financial report as of January 1, 2004. Any additions made from January 1, 2004 are included at their nominal values.

The selected data presented below for the nine-month period ended September 30, 2005, are derived from the unaudited consolidated financial statements of Cellcom Israel Ltd. and its subsidiaries included elsewhere in this prospectus.

The selected information also includes certain items 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 included elsewhere in this prospectus.

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented at September 30, 2006, translated using the rate of NIS 4.302 to $1.00, the representative rate of exchange on September 30, 2006 as published by the Bank of Israel.

	Year Ended December 31,					Nine Months Ended September 30,		
	2001	2002	2003	2004	2005	2005	2006	2006 (In $)
	(In NIS millions, except per share data)							
Income Statement Data:								
Revenues	4,960	5,135	5,261	5,600	5,114	3,845	4,191	974
Cost of revenues	2,893	3,111	3,075	3,302	3,133	2,264	2,470	574

Table of Contents

	Year Ended December 31,					Nine Months Ended September 30,		
	2001	2002	2003	2004	2005	2005	2006	2006 (In $)
	(In NIS millions, except per share data)							
elling and narketing xpenses	574	651	613	661	623	453	473	110
eneral and dministrative xpenses	621	678	682	684	656	512	486	113
)perating ncome	872	695	891	953	702	616	762	177
inancial ncome xpense), net	(15)	(5)	(216)	(45)	24	13	(128)	(30
)ther income xpenses), net	6	(5)	1	1	(11)	(10)	(1)	(0
ncome tax	288	266	245	292	232	201	243	56
let income	575	419	431	617	483	418	390	91
asic and iluted net ncome per hare	5.90	4.30	4.42	6.33	4.95	4.29	4.00	0.93
Veighted verage rdinary shares utstanding	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000
)ividends eclared per hare(1)					34.87		4.41	
.S. GAAP Data(2)**:**								
let income			441	620	491	460	374	87
asic and iluted arnings			4.52	6.36	5.04	4.72	3.84	0.89
)ther Data:								
BITDA(3)	1,704	1,652	1,890	1,914	1,643	1,320	1,429	332
apital xpenditures	1,727	1,073	658	739	747	360	313	73
let cash rovided used) by perating ctivities	1,325	1,285	1,393	1,471	1,272	1,000	1,067	248
	(1,280)	(1,557)	(508)	(852)	(619)	(445)	(511)	(119

let cash rovided used) in nvesting ctivities								
let cash rovided used) by nancing ctivities	(153)	436	(603)	(1,068)	1,114	(536)	(2,210)	(514
ubscribers(4)	2,262	2,468	2,300	2,450	2,603	2,554	2,828	
eriod churn ate(5)	10.5%	11.2%	27.3%	19.9%	15.0%	10.5%	12.4%	
RPU (in IIS)(6)	177	166	162	174	151	154	152	35

	December 31,					**September 30,**
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
	(In NIS millions)					
Balance Sheet Data:						
Cash	6	171	454	5	1,772	118
Working capital	(628)	(67)	(361)	(138)	1,909	180
Total assets	5,639	6,047	5,907	5,311	7,016	5,014
Shareholders equity	1,694	2,114	2,545	3,161	3,649	184
U.S. GAAP Data(2):						
Total assets				5,610	11,100	9,085
Shareholders equity				3,312	4,490	4,018

(1) All dividends declared were paid in cash in the first nine months of 2006.

(2) 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. See note 28 to our consolidated financial statements. 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 nine months ended and as at September 30, 2006 are not comparable with the data presented for the previous periods.

(3) 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 or, most recently, our provision for tax expenses) the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense and, until December 31, 2003, the effects of adjusting for changes in the general purchasing power of the Israeli currency as discussed above). 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 prospectus, 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,					Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
	(In NIS millions)						
Net income	575	419	431	617	483	418	390
Financial expense (income), net	15	5	216	45	(24)	(13)	128
Other expenses (income)	(6)	5	(1)	(1)	11	10	1
Income taxes	288	266	245	292	232	201	243
Depreciation and amortization	832	957	999	961	941	704	667
EBITDA	1,704	1,652	1,890	1,914	1,643	1,320	1,429

(4) 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 subscriber. We now believe that waiting six months to deduct subscribers is preferable since many subscribers that were inactive for three months become active again before the end of six months. As a result, commencing July 1, 2006, we adopted a six-month method of calculating our subscriber base, but 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 2003 and 2005 but in each case have not restated prior subscriber data to conform to the new presentation. We estimate that the change in methodology in 2003 led to a decrease in our reported subscriber numbers of approximately 300,000 and the change in methodology in 2005 led to an increase in our reported subscriber numbers of approximately 84,000.

(5) 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.

(6) 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

Table of Contents

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,					Nine Months Ended September 30,		
	2001	2002	2003	2004	2005	2005	2006	2006 (In $)
	(In NIS millions, except number of subscribers and months)							
Revenues	4,960	5,135	5,261	5,600	5,114	3,845	4,191	974
less revenues from equipment sales	286	502	498	646	565	406	477	111
less other revenues*	11	10	22	21	38	26	43	10
adjustments to the Israeli CPI**	226	(32)	(62)					
Revenues used in ARPU calculation (in NIS millions)	4,437	4,655	4,803	4,933	4,511	3,413	3,671	853
Average number of subscribers	2,091,937	2,336,264	2,477,316	2,368,919	2,489,453	2,467,596	2,675,807	2,675,807
Months during period	12	12	12	12	12	9	9	9
ARPU (in NIS, per month)	177	166	162	174	151	154	152	35

* Other revenues includes revenues from repair services and transmission services.

** Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli CPI. We reverse these adjustments in presenting ARPU.

If the change in methodology of calculating our subscriber base had not changed in July 2006, ARPU for the nine months ended September 30, 2006 would have been NIS 154, which is equal to ARPU for the corresponding period in 2005.

Table of Contents

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following operating and financial review and prospects should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and accompanying notes appearing elsewhere in this prospectus. Our financial statements have been prepared in accordance with Israeli Generally Accepted Accounting Principles, or Israeli GAAP, which differ in certain respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP. Note 28 to the audited consolidated financial statements provides a description of the principal differences between Israeli GAAP and U.S. GAAP, as they relate to us, a reconciliation to U.S. GAAP of income and total shareholders equity, a description of how operating income under U.S. GAAP was determined, a condensed financial statement of cash flows under U.S. GAAP and U.S. GAAP supplementary information.

Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli consumer price index. Accordingly, among other things, non-monetary items (such as fixed assets) were adjusted based on the changes in the Israeli CPI from the Israeli CPI published for the month in which the transaction relating to the asset took place up to the Israeli CPI at the date of the balance sheet. Starting January 1, 2004, the adjustment of financial statements for the impact of the changes in the purchasing power of the Israeli currency was discontinued. The adjusted amounts included in the financial statements as of December 31, 2003 constitute the starting point for the nominal financial report as of January 1, 2004. Any additions made from January 1, 2004 are included at their nominal values.

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 Risk Factors and elsewhere in this prospectus.

Overview

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues and EBITDA as of September 30, 2006, providing services to approximately 2.8 million subscribers in Israel with an estimated market share of 34.4%.

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 167 countries as of September 30, 2006 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 1,300 kilometer fiber-optic transmission infrastructure. 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. While we expect landline telephone services to be a future growth opportunity, we do not expect material revenues from these services in 2006 or 2007.

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 is expected to increase further as a result of the implementation of number portability, which is likely to occur during 2007, as it will remove a deterrent to switching providers. In the past our revenue growth has largely resulted from growth in the overall market. Going forward, however, we intend to drive revenue growth primarily by: maintaining and enhancing our strong brand; retaining our existing subscribers; growing our ARPU by offering new and advanced services as well as increasing our content and roaming revenues; and attracting new subscribers, mainly from other cellular operators. 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. With the full launch in the third quarter of 2006 of our advanced content services, based on 3.5G HSDPA technology, we have already started to execute our growth strategy in this area.

The cellular industry is primarily regulated by the Ministry of Communications. See Regulatory Matters. While our pricing is not generally regulated, certain of our rates are subject to regulation. In particular, the reduction of interconnect tariffs by the Ministry of Communications in March 2005 and March 2006, which will continue through 2008, has adversely affected our results and requires us to find alternative sources of revenues to compensate for these reductions. Further, commencing January 1, 2009, the basic airtime charging unit, as well as the interconnect tariff unit, will decrease from the current 12-second basic charging unit to a one-second basic charging unit. We are implementing various measures to reduce the impact of this change on our operating results including by offering attractive calling plans based on other charging units, while allowing customers to switch to a basic (one-second) unit calling plan, as our license currently permits us to do. Finally, in November 2006, the licenses of Israeli cellular operators, including us, were amended with respect to the pricing method of calls that terminate in the voice mail of cellular subscribers. This amendment will come into effect in January 2007. Management believes that if the amendment had come into effect as of January 1, 2006, its effect on an annual basis in 2006, based upon September 2006 data, would have been to decrease our annual revenue and net income by NIS 70 million and NIS 40-45 million, respectively.

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 Regulatory Matters 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 Risk Factors We may not be able to obtain permits to construct and operate cell sites. However, even though 27 cell sites are currently the subject of criminal proceedings (with eight cell sites subject to demolition orders), we do not expect that the demolition of these facilities would have a material impact on our results of operations and financial condition. We are also monitoring the consultation process with respect to the draft Non-Ionizing Radiation Regulations published by the Ministry of Environmental Protection in November 2006. However, until the process is complete and final draft regulations are proposed, 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 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 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 IDB of a majority interest in us in September 2005, IDB brought in a new management team, including Ami Erel, the Chairman of our Board of Directors, who had 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, and Tal Raz, our Chief Financial Officer, one of the founders and formerly a director of Partner, one of our principal competitors. Our new management team has already 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. In addition, from September 2005 to September 2006, our new management s cost-reduction efforts involved the reduction of our overall workforce, including higher-cost temporary workers, by over 2%, primarily through the elimination of over 16% of non-customer facing positions. 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 by approximately 9% and 24%, respectively, and our general and administrative expenses decreased by 5%, in the first nine months of 2006 compared to the first nine months of 2005. Notwithstanding these savings and management s continued focus on cost cutting initiatives, we expect that selling expenses will continue to increase as a result of sales commissions paid for new subscribers and increased marketing efforts. Further, the higher cost of 3G enabled handsets to support our advanced content and data services may increase the costs related to both subscriber acquisition and subscriber retention.

Our results are also impacted by currency fluctuations. While substantially all of our revenues are denominated in NIS, for the nine months ended September 30, 2006, approximately 27% of cash outflow was denominated in, or linked to, other currencies, mainly U.S. dollars. These payments included capital expenditures, cell site rental fees, payments to equipment suppliers and, in 2006, payments of principal and interest on our credit facility. 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 non-NIS 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 Quantitative and Qualitative Disclosures About Market Risk.

Further, we incurred significant debt in late 2005 and in the first half of 2006, which will increase our financial expenses compared to historical results. We issued approximately NIS 2.0 billion 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 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 provides for a term loan of $280 million and a revolving credit facility of up to $70 million. In April 2006, we converted part of the outstanding dollar loan into an NIS loan. See Liquidity and Capital Resources Debt service.

Table of Contents

In February 2006, our Board of Directors adopted a policy to distribute at least 75% of our net income as determined under Israeli GAAP as dividends, subject to compliance with applicable law, our license and contractual obligations (which currently limit distribution of dividends) and so long as the distribution would not be detrimental to our cash needs or any plans approved by our Board of Directors. During the first nine months of 2006, we distributed cash dividends in the aggregate amount of NIS 3.83 billion. Prior to 2006, we had not distributed dividends since our inception. See Dividend Policy and Liquidity and Capital Resources Dividend payments. In the future, however, 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.

Our majority shareholder, DIC, has agreed with some of our other shareholders to endeavor to cause us to undertake an initial public offering by 2009. We have now decided to become a public company and list our ordinary shares on the New York Stock Exchange to take advantage of the equity and debt capital raising opportunities available to a public company in a deep and liquid capital market, 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 exercise their rights under the registration rights agreement.

New Israeli accounting standard affecting measurement of fixed assets

In September 2006, the Israeli Accounting Standards Board published Israeli Accounting Standard No. 27, Property, plant and equipment which prescribes rules for the presentation, measurement and recognition of fixed assets and related disclosure. Starting January 1, 2007, when this new standard takes effect, we will retroactively separate each individual material component of our network that has an estimated useful life that differs from the dominant asset within the network, mainly transmission equipment such as fiber-optic cables and infrastructure. Then, each component will be retroactively depreciated over its own useful life. The retroactive application of this standard is expected to increase our retained earnings as of January 1, 2007 by approximately NIS 280 million and to have the following effect on our results of operations for all of the periods reported herein.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
	(In NIS millions)				
Decrease in depreciation expense	46	46	52	39	38
Decrease (increase) in deferred tax expense	(17)	(4)	(2)	2	7
Decrease in capital gain			(2)	(2)	(3)
Increase in net income	29	42	48	39	28
Increase in basic and diluted earnings per ordinary shares	0.30	0.43	0.49	0.40	0.29

It is also expected to have a significant effect on our results of operations for future periods. See New Accounting Standards Israeli Accounting Standard No. 27, Property, plant and equipment .

Adoption of International Financial Reporting Standards

In July 2006, the Israeli Accounting Standards Board published Israeli Accounting Standard No. 29, Adoption of International Financial Reporting Standards. The Standard provides that entities that are required to report pursuant to the Israeli Securities Law, 1968 are to prepare their financial statements for periods beginning as and from January 1, 2008 according to International Financial Reporting Standards, or IFRS. As we are required to report under the

Table of Contents

Securities Law as a result of the listing of our debentures on the Tel Aviv Stock Exchange, we will adopt IFRS as our financial reporting standard in 2008. As part of this adoption, we intend to include certain balance sheet data as of December 31, 2007, and income statement data for the year then ended, that will have been prepared according to the recognition, measurement and presentation principles of IFRS in our annual financial statements for December 31, 2007.

2006 Share Incentive Plan

In September 2006, our Board of Directors approved an option plan for our employees, officers and directors. The plan has 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 general, the options and RSUs vest in four equal installments on each of the first, second, third and fourth anniversary of the date of grant. Under Israeli GAAP, we are required to expense the grant date fair value of the options over their vesting period in accordance with Israeli Accounting Standard No. 24. The treatment under U.S. GAAP in accordance with SFAS 123R is the same. In accordance with these standards, we estimate the total compensation cost related to the options granted to be NIS 53 million, of which we expect to expense approximately NIS 30 million before the end of 2007. This cost will be recognized over the vesting period commencing on the date of completion of a public offering of our ordinary shares. However, the vesting of options and RSUs will be accelerated upon certain corporate events, including a merger, a consolidation, a sale of all or substantially all of our consolidated assets, or a sale of our ordinary shares held by IDB that leads to any reduction in IDB s ownership to below 50.01%. If we distribute cash dividends before the exercise of these options, the exercise price of each option will be reduced by an amount equal to the gross amount of the dividend per share distributed.

Revenues

We derive our revenues primarily from the sale of cellular network services (such as airtime), handsets and other services, including extended handset warranties and the provision of transmission 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 to as outbound roaming, and charges that we bill to our roaming partners whose subscribers use our network, to which we refer to as inbound roaming.

Cost of revenues

The principal components of our cost of revenues are interconnect fees, the purchase of handsets, accessories and spare parts, 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. As we continue to focus our efforts on increasing sales of our products and services, we expect our sales commissions to rise accordingly.

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 system.

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 Israeli GAAP.

Other income and expenses

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

Income Tax

Generally, Israeli companies were subject to corporate tax on their taxable income at the rate of 36% for the 2003 tax year, 35% for the 2004 tax year and 34% for the 2005 tax year. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961, which came into effect on January 1, 2006, the corporate tax rate is scheduled to decrease as follows: 31% for the 2006 tax year, 29% for the 2007 tax year, 27% for the 2008 tax year, 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.

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, we recorded in the nine month period ended September 30, 2006 an additional tax provision of NIS 39 million, based on the possibility that part of our financing expenses accrued in the nine month period ended September 30, 2006 will not be recognized as a deductible expense for tax purposes. While we believe that we have reasons justifying the recognition of these expenses, or part of them, for tax purposes, as of the date of the financial statements the level of certainty required in order to recognize these expenses does not exist. As a result, we recorded the NIS 39 million provision. We are evaluating the possible effects of the ruling, if any, on our future results.

Recent Developments

In the fourth quarter of 2006, we added approximately 56,000 net subscribers, for a total of 2,884,000 subscribers as of December 31, 2006, compared to an addition of approximately 50,000 net subscribers in the fourth quarter of 2005. Average monthly usage per subscriber (in minutes of use) for 2006 was 338, compared to 321 in 2005.

Table of Contents

We have not yet finalized our financial results for the fourth quarter of 2006, and accordingly the estimates set out in this paragraph are subject to adjustments that could be material as we finalize our results. However, we currently expect that revenues in 2006 will total approximately NIS 5,600 million to NIS 5,620 million, compared to revenues of NIS 5,114 million in 2005, and that ARPU will be approximately NIS 150 to NIS 151, compared to NIS 151 in 2005. Operating income for 2006 will be approximately NIS 965 million to NIS 975 million, including depreciation and amortization of approximately of NIS 880 million to NIS 885 million, compared to operating income of NIS 702 million, including depreciation and amortization of NIS 941 million, in 2005.

Results of Operations

Comparison of nine months ended September 30, 2005 and 2006

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

	Nine Months Ended September 30,		
	2005	**2006**	**Change***
Subscribers at end of period(1) (in thousands)	2,554	2,828	10.7%
Period churn rate(1)(2)	10.5%	12.4%	1.9pp
Average monthly usage per subscriber (MOU) (in minutes)(1)(3)	326	336	3.1%
Average monthly revenue per subscriber (ARPU)(1)(4) (in NIS)	154	152	(1.3)%
Operating income (in NIS millions)	616	762	23.7%
Net income (in NIS millions)	418	390	(6.7)%
EBITDA(5) (in NIS millions)	1,320	1,429	8.3%
Operating income margin(6)	16.0%	18.2%	2.2pp
EBITDA margin(7)	34.3%	34.1%	(0.2pp)

* pp denotes percentage points and this measure of change is calculated by subtracting the 2005 measure from the 2006 measure.

(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 subscriber. We now believe that waiting six months to deduct subscribers is preferable since many subscribers that were inactive for three months become active again before the end of six months. As a result, commencing July 1, 2006, we adopted a six-month method of calculating our subscriber base, but 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.

(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 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.

(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. If the methodology of calculating our subscriber base had not changed in July 2006, the MOU for the nine months ended September 30, 2006 would have been 339 minutes, which represents an increase of 4.0% compared with the corresponding period in 2005.

(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.

Table of Contents

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:

	Nine Months Ended September 30,		
	2005	**2006**	**2006 (In $)**
	(In NIS millions, except number of subscribers and months)		
Revenues	3,845	4,191	974
less revenues from equipment sales	406	477	111
less other revenues*	26	43	10
adjustments to the Israeli CPI**			
Revenues used in ARPU calculation (in NIS millions)	3,413	3,671	853
Average number of subscribers	2,467,596	2,675,807	2,675,807
Months during period	9	9	9
ARPU (in NIS, per month)	154	152	35

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

** Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli CPI. We reverse these adjustments in presenting ARPU.

If the methodology of calculating our subscriber base had not changed in July 2006, ARPU for the nine months ended September 30, 2006 would have been NIS 154, which is equal to ARPU for the corresponding period in 2005.

(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 or, most recently, our provision for tax expenses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense and, until December 31, 2003, the effects of adjusting for changes in the general purchasing power of the Israeli currency as discussed above). 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 prospectus, 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:

	Nine Months Ended September 30,

	2005	2006
	(In NIS millions)	
Net income	418	390
Financial expenses (income), net	(13)	128
Other expenses (income), net	10	1
Income taxes	201	243
Operating income	616	762
Depreciation and amortization	704	667
EBITDA	1,320	1,429

(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.

Table of Contents

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

	Nine Months Ended September 30,	
	2005	2006
Revenues	100.0%	100.0%
Cost of revenues	58.9%	58.9%
Gross profit	41.1%	41.1%
Selling and marketing expenses	11.8%	11.3%
General and administrative expenses	13.3%	11.6%
Operating income	16.0%	18.2%
Financial income (expenses), net	0.3%	(3.1)%
Other income (expenses), net	(0.2)%	(0.0)%
Income before taxes	16.1%	15.1%
Income tax	5.2%	5.8%
Net income	10.9%	9.3%

Revenues

	Nine Months Ended September 30,		
	2005	2006	Change
	(In NIS millions)		
Revenues	3,845	4,191	9.0%

The increase in revenues was due primarily to an increase of approximately 10.7% in our subscriber base (approximately 7.7% if our calculation methodology had not changed, as discussed above) and an increase in average usage per subscriber, leading to increased airtime usage. Revenues also benefited from a relatively significant increase in roaming services and in content services. In addition, we sold a larger quantity of handsets during the first nine months of 2006 compared with the corresponding period in 2005. The increase in revenues was offset in part by the reduction of interconnect tariffs by the Ministry of Communications in March 2005 and again in March 2006. ARPU decreased slightly despite the increase in revenue from content and roaming services and in airtime usage due to the reduction in interconnect tariffs.

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

Nine Months Ended September 30,

	2005		2006	
	Revenues	**% of Total Revenues**	**Revenues**	**% of Total Revenues**
	(NIS in millions)		**(NIS in millions)**	
Voice services:				
Outgoing air time (including interconnect)	1,931	50.2%	1,958	46.7%
Incoming air time	815	21.2%	846	20.1%
Roaming	222	5.8%	292	7.0%

	Nine Months Ended September 30,			
	2005		2006	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)	
Total voice services	2,968	77.2%	3,096	73.9%
Other services*	471	12.2%	618	14.7%
Total services	3,439	89.4%	3,714	88.6%
Handsets and accessories	406	10.6%	477	11.4%
Total	3,845	100.0%	4,191	100.0%

* Consists of fixed monthly subscription fees, content services, text messages, data services, extended warranty fees, transmission and others.

During the first nine months of 2006, revenues from services (which represent approximately 89% of total revenues) increased by approximately 8.0%, compared with the first nine months of 2005. This increase in revenues from services was primarily as a result of an increase in our customer base of approximately 10.7% (approximately 7.7% if our calculation methodology had not changed, as discussed above) (mainly among post-paid subscribers), an increase in average subscriber usage and an increase in revenues originating in content and roaming services. These increases were partially offset by the reduction in interconnect tariffs.

Revenues from other services also increased mainly as a result of the growth in content services and sales of data packages. As a percentage of total revenues, revenues from other services increased to 14.7% in the first nine months of 2006 from 12.2% in the corresponding period in 2005.

Handset and accessories revenues (comprising approximately 11% of total revenues) during the first nine months of 2006 increased by 17.5% compared with the first nine months of 2005. This increase primarily resulted from an increase of approximately 8% in the amount of handsets sold, resulting from sales campaigns launched in 2006, and from an increase in the average handset sale price due to higher sales of advanced handsets.

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

	Nine Months Ended September 30,			
	2005		2006	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)	

Individual	2,112	54.9%	2,280	54.4%
Business	1,609	41.9%	1,693	40.4%
Other*	124	3.2%	218	5.2%
Total	3,845	100.0%	4,191	100.0%

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

A breakdown of revenues according to types of subscribers (individual and business) shows an increase during the first nine months of 2006 compared with the first nine months of 2005 in revenues attributable to individual subscribers of 8.0%, and an increase in revenues attributable to business subscribers of 5.2%. These increases are the result of a higher subscriber base and increased usage, and also an increase in the average handset sale price due to a larger amount of advanced handsets sold in the period.

Table of Contents

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

	Nine Months Ended September 30,			
	2005		2006	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)	
Pre-paid	523	13.6%	530	12.6%
Post-paid	3,198	83.2%	3,443	82.2%
Other*	124	3.2%	218	5.2%
Total	3,845	100.0%	4,191	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 resulted mainly from post-paid subscribers. This increase is the result of an increase in the amount of handsets sold, and an increase in revenues from services resulting from an increase in usage, an increase in content revenues and the expansion of our subscriber base.

Cost of revenues and gross profit

	Nine Months Ended September 30,		
	2005	2006	Change
	(In NIS millions)		
Cost of revenues services	1,816	1,878	3.4%
Cost of revenues equipment	448	592	32.1%
Total cost of revenues	2,264	2,470	9.1%
Gross profit	1,581	1,721	8.9%

The increase in cost of revenues services resulted mainly from an increase in cost of content services, such as fees to content providers. This increase was also affected by an increase in outbound roaming activity, resulting in an increase in payments to international cellular operators.

The increase in cost of revenues equipment resulted from a larger number of handsets sold, as a result of large sales campaigns during the period, and from an increase in the average handset cost due to a larger number of advanced handsets sold.

The improvement in gross profit was due primarily to higher airtime usage, an increase in roaming activity, and an increase in content services. This improvement was partially offset by the increase in our subsidizing of the cost of handsets sold.

Selling and marketing expenses and general and administrative expenses

	Nine Months Ended September 30,		
	2005	2006	Change
	(In NIS millions)		
Selling and marketing expenses	453	473	4.4%
General and administrative expenses	512	486	(5.1)%
Total	965	959	(0.6)%

Table of Contents

Selling and marketing expenses increased as a result of investments in customer services and an increase in sales commissions as a result of higher handsets sales and expansion of our sale channels, which were partially offset by a decrease in our advertising expenses due to a reduced advertising budget in 2006 compared to 2005.

General and administrative expenses have decreased due to our streamlining measures, which reduced most of the expense categories in our administrative departments. In particular, from September 2005 to September 2006, we have eliminated over 16% of non-customer facing positions.

Despite our intensified marketing efforts and investment in customer service, our combined selling and marketing expenses and general and administrative expenses decreased due to the streamlining measures that we implemented in late 2005 and early 2006. See Overview.

Financial and other income (expenses), net

	Nine Months Ended September 30,	
	2005	**2006**
	(In NIS millions)	
Financial income (expenses), net	13	(128)
Other income (expenses), net	(10)	(1)

The increase in financial expenses was due primarily to increased interest expenses as a result of the increase in our outstanding indebtedness following the issuance of our debentures in late 2005 and the first half of 2006, as well as the credit facility with a syndicate of Israeli and international banks arranged by Citibank that we entered into during the first quarter of 2006, raising a total of approximately NIS 3.6 billion. See Liquidity and Capital Resources Debt service Credit facility from bank syndicate. We expect to continue to incur this higher level of interest expense.

Interest and expenses associated with increases in the principal amount of the debentures, as a result of increases in the Israeli CPI, and interest expenses resulting from the loan facility with the bank syndicate led by Citibank incurred during the first nine months of 2006 were approximately NIS 158 million.

Income tax

	Nine Months Ended September 30,		
	2005	**2006**	**Change**
	(In NIS millions)		
Income tax	201	243	(20.9)%

The increase was primarily due to an additional tax provision of NIS 39 million following a decision of the Israeli Supreme Court in a case to which we were not a party. 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, we recorded in the nine month period ended September 30, 2006 an additional tax provision of NIS 39 million, based on the possibility that part of our financing expenses accrued in the nine month period ended September 30, 2006 will not be recognized as a deductible expense for tax purposes. While we believe that we have reasons justifying the recognition

of these expenses, or part of them, for tax purposes, as of the date of the financial statements the level of certainty required in order to

recognize these expenses does not exist. As a result, we recorded the NIS 39 million provision. We are evaluating the possible effects of the ruling, if any, on our future results.

The increase in income tax was also due to a higher income before income tax.

Net income

	Nine Months Ended September 30,		
	2005	2006	Change
	(In NIS millions)		
Net income	418	390	(6.7)%

The decrease in net income was due mainly to the increase in income tax and a significant increase in financial expenses as a result of our new capital structure, which was partially offset by a significant increase in revenues. We expect this level of financial expense to continue, and therefore to negatively impact our income in future periods.

Comparison of 2003, 2004 and 2005

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

	Year Ended December 31,			Change*	
	2003	2004	2005	2004 vs. 2003	2005 vs. 2004
Subscribers at end of period(1) (in thousands)	2,300	2,450	2,603	6.5%	6.2%
Period churn rate(1)(2)	27.3%	19.9%	15.0%	(7.4pp)	(4.9pp)
Average monthly usage per subscriber (MOU) (in minutes)(1)(3)	316	334	321	5.7%	(3.9)%
Average monthly revenue per subscriber (ARPU)(1)(4) (in NIS)	162	174	151	7.4%	(13.2)%
Operating income (in NIS millions)	891	953	702	7.0%	(26.3)%
Net income (in NIS millions)	431	617	483	43.2%	(21.7)%
EBITDA(5) (in NIS millions)	1,890	1,914	1,643	1.3%	(14.1)%
Operating income margin(6)	16.9%	17.0%	13.7%	0.1pp	(3.3pp)
EBITDA margin(7)	35.9%	34.2%	32.1%	(1.7pp)	(2.1pp)

* pp denotes percentage points and this measure of change is calculated by subtracting the 2003 measure from the 2004 measure and the 2004 measure from the 2005 measure, respectively.

(1) Subscriber data refer to active subscribers. We revised our subscriber calculation methodology in 2003 and 2005 but in each case have not restated prior subscriber data to conform to the new presentation. We estimate that the change in methodology in 2003 led to a decrease in our reported subscriber numbers of approximately 300,000 and the change in methodology in 2005 led to an increase in our reported subscriber numbers of approximately 84,000.

(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

Table of Contents

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,		
	2003	**2004**	**2005**
	(In NIS millions, except number of subscribers and months)		
Revenues	5,261	5,600	5,114
less revenues from equipment sales	498	646	565
less other revenues*	22	21	38
adjustments to the Israeli CPI**	(62)		
Revenues used in ARPU calculation (in NIS millions)	4,803	4,933	4,511
Average number of subscribers	2,477,316	2,368,919	2,489,453
Months during period	12	12	12
ARPU (in NIS, per month)	162	174	151

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

** Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli CPI. We reverse these adjustments in presenting ARPU.

(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 or, most recently, our provision for tax expenses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense and, until December 31, 2003, the effects of adjusting for changes in the general purchasing power of the Israeli currency as discussed above) 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 prospectus, 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,		
	2003	**2004**	**2005**

	(In NIS millions)		
Net income	431	617	483
Financial expenses (income), net	216	45	(24)
Other expenses (income), net	(1)	(1)	11
Income taxes	245	292	232
Operating income	891	953	702
Depreciation and amortization	999	961	941
EBITDA	1,890	1,914	1,643

(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.

Table of Contents

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,		
	2003	**2004**	**2005**
Revenues	100.0%	100.0%	100.0%
Cost of revenues	58.4%	59.0%	61.3%
Gross profit	41.6%	41.0%	38.7%
Selling and marketing expenses	11.7%	11.8%	12.2%
General and administrative expenses	13.0%	12.2%	12.8%
Operating income	16.9%	17.0%	13.7%
Financial income (expenses), net	(4.1)%	(0.8)%	0.5%
Other income (expenses), net	0.0%	0.0%	(0.2)%
Income before taxes	12.8%	16.2%	14.0%
Income tax	4.6%	5.2%	4.6%
Net income	8.2%	11.0%	9.4%

Revenues

	Year Ended December 31,			Change	
	2003	**2004**	**2005**	**2004 vs. 2003**	**2005 vs. 2004**
	(In NIS millions)				
Revenues	5,261	5,600	5,114	6.4%	(8.7)%

The decrease in our revenues in 2005 was due mainly to the reduction in interconnect tariffs by the Ministry of Communications in March 2005 and a decrease in the average tariff per minute, both resulting in a reduction in ARPU, and a decrease in the number of handsets sold. This decrease was offset in part by an increase in domestic airtime usage and in outbound roaming usage and by an increase in our subscribers base.

The increase in our revenues in 2004 was due mainly to an increase in revenues from content services and roaming services, due to intensified marketing efforts in these areas, as well as an increase in handset sales due to aggressive sales campaigns.

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

	2003		2004		2005	
	Revenues	**% of Total Revenues**	**Revenues**	**% of Total Revenues**	**Revenues**	**% of Total Revenues**

	(NIS in millions)		**(NIS in millions)**		**(NIS in millions)**	
Voice services:						
Outgoing air time (including interconnect)	2,818	53.6%	2,773	49.5%	2,535	49.6%
Incoming air time	1,242	23.6%	1,290	23.1%	1,072	21.0%
Roaming	143	2.7%	230	4.1%	300	5.8%
Total voice services	4,203	79.9%	4,293	76.7%	3,907	76.4%
Other services*	560	10.6%	661	11.8%	642	12.6%

Table of Contents

	2003		2004		2005	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)		(NIS in millions)	
Total services	4,763	90.5%	4,954	88.5%	4,549	89.0%
Handsets and accessories	498	9.5%	646	11.5%	565	11.0%
Total	5,261	100.0%	5,600	100.0%	5,114	100.0%

* Consists of fixed monthly subscription fees, content services, text messages, data services, extended warranty fees, transmission services and others.

During 2005, revenues from services (comprising approximately 89% of total revenues) decreased by 8.2%, compared with 2004. This decrease resulted mainly from a decline in ARPU by 13.2% due primarily to the reduction of interconnect tariffs in March 2005 by the Ministry of Communications. This decrease was partially offset by an increase in usage of roaming and an increase in our subscriber base of approximately 6.2%.

During 2004, revenues from services (comprising approximately 88% of total revenues) increased by 4%, compared with 2003. This increase resulted mainly from an increase in ARPU by 7.4% and an increase in our subscriber base of approximately 6.5%. The increase in ARPU was the result of an increase in roaming usage and content services.

From 2004 to 2005, the revenues from other services, as a percentage of our total revenues, increased from 11.8% to 12.6% correspondingly following an increase from 10.6% in 2003 to 11.8% in 2004.

Our revenues from the sale of handsets and accessories decreased during 2005 by 12.5%, compared with 2004, as the result of the larger amount of handsets sold in 2004, resulting from aggressive sales campaigns. This increase in sales of handsets in 2004 compared to 2003 also explains the increase in handsets and accessories revenues in 2004 compared to 2003 of 29.7%.

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

	2003		2004		2005	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(NIS in millions)		(NIS in millions)		(NIS in millions)	
Individual	2,998	57.0%	3,140	56.1%	2,805	54.8%
Business	2,192	41.7%	2,322	41.5%	2,137	41.8%
Other*	71	1.3%	138	2.4%	172	3.4%

Total	5,261	100.0%	5,600	100.0%	5,114	100.0%

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

A breakdown of revenues according to types of subscribers shows a decrease in revenues during 2005, compared with 2004, of approximately 11% from individual subscribers, and of approximately 8% from business subscribers. This decrease was mainly due to a decrease in revenues from services primarily resulting from the erosion of ARPU caused by the decline in interconnect tariffs, and a decrease in the amount of handsets sold to individual subscribers.

50

Table of Contents

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

	2003		2004		2005	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues	Revenues	% of total revenues
	(NIS in millions)		(NIS in millions)		(NIS in millions)	
Pre-paid	713	13.5%	773	13.8%	682	13.3%
Post-paid	4,477	85.1%	4,689	83.7%	4,260	83.3%
Other*	71	1.4%	138	2.5%	172	3.4%
Total	5,261	100.0%	5,600	100.0%	5,114	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 there was a decline in revenues from pre-paid subscribers in 2005 compared with 2004 of 11.8%, and from post-paid subscribers of 9.1%. This decrease is the result of a decline in revenues from services, caused primarily by an erosion in ARPU resulting from the reduction of interconnect tariffs, and a decrease in the amount of handsets sold.

The increase in revenues in 2004 compared with 2003 resulted primarily from an increase in the sales of handsets. This increase is reflected through the breakdown of revenues according to subscriber type and payment plan.

Cost of revenues and gross profit

	Year Ended December 31,			Change	
	2003	2004	2005	2004 vs. 2003	2005 vs. 2004
	(In NIS millions)				
Cost of revenues-services	2,365	2,489	2,450	5.2%	(1.6)%
Cost of revenues-equipment	710	813	683	14.5%	(16.0)%
Total cost of revenues	3,075	3,302	3,133	7.4%	(5.1)%
Gross profit	2,186	2,298	1,981	5.1%	(13.8)%

The decrease in cost of revenues-services in 2005 compared to 2004 was due mainly to the reduction in interconnect tariffs by the Ministry of Communications in March 2005 and to the reduction in salary and related expenses as part of our streamlining measures. The increase in cost of revenues-services in 2004 compared to 2003 was related mainly to the increase in revenues from services and an increase in network maintenance expenses and insurance expenses. These increases were offset in part by a decrease in depreciation expenses.

The decrease in cost of revenues-equipment in 2005 compared to 2004 resulted mainly from a decrease in handsets costs due to the smaller number of handsets sold during this period. This decrease was partially offset by a significant adjustment to the carrying value of inventory made in the fourth quarter of 2005. As we had excess inventory due to overly optimistic sales projections, we wrote off part of our inventory of i-mode handsets by approximately NIS 28 million resulting in an increase in our cost of sales. The increase in cost of revenues-equipment in 2004 compared to 2003 resulted mainly from an increase in handset costs due to the large number of handsets sold during that year as part of an aggressive sales campaign.

The increase in gross profit on sales and services in 2004 was due mainly to an increase in revenues from content services as well as to an increase in roaming services, due to intensified sales campaigns in these areas, as well as a decrease in subsidies on handset sales. The decrease in gross profit on sales and services in 2005 was due mainly to the reduction in

Table of Contents

interconnect tariffs by the Ministry of Communications in March 2005, a reduction of the average tariff per minute and a decrease in the number of handsets sold.

Selling and marketing expenses and general and administrative expenses

	Year Ended December 31,			Change	
	2003	2004	2005	2004 vs. 2003	2005 vs. 2004
	(In NIS millions)				
Selling and marketing expenses	613	661	623	7.8%	(5.7)%
General and administrative expenses	682	684	656	0.3%	(4.1)%
Total	1,295	1,345	1,279	3.9%	(4.9)%

The decrease in selling and marketing expenses in 2005 was due mainly to the reduction in commissions to our distributors as a result of a decrease in handset sales by them and to a decrease in our advertising costs. The decrease in general and administrative expenses in 2005 was due mainly to a reduction in bad debt expenses, due to improvements in our collection system, more efficient staff utilization and other efficiencies achieved.

The increase in selling and marketing expenses in 2004 was due mainly to the increase in commissions paid to our distributors as a result of an increase in sales of handsets and as a result of an increase in advertising expenses for sales campaigns during this period. We were successful in keeping our general and administrative expenses in 2004 similar to those of 2003 despite the increase in revenues and our number of subscribers.

Financial and other income (expenses), net

	Year Ended December 31,		
	2003	2004	2005
	(In NIS millions)		
Financial income (expenses), net	(216)	(45)	24
Other income (expenses), net	1	1	(11)

The transition from financial expenses to financial income in 2005 resulted from a decrease in financial expenses as the result of the repayment of the majority of our bank loans and from our hedging against fluctuations in currency exchange rates and other financial derivative transactions.

Financial income resulting from hedging transactions amounted to NIS 11 million in 2005, compared with financial expenses of NIS 28 million in 2004. The change primarily resulted from sharp fluctuations in the U.S. dollar: NIS exchange rate during these years, and the use of hedging transactions to mitigate the risk resulting from these sharp fluctuations.

Financial expenses in 2004 compared with 2003 decreased by approximately 79%. This sharp decline resulted primarily from the repayment of the majority of our loans, in the amount of NIS 1.1 billion during 2004. Financial expenses during 2004 for bank loans decreased by NIS 102 million and financial expenses from hedging activities decreased by NIS 56 million. These decreases were the result of sharp fluctuations in the U.S. dollar: NIS exchange rate during these years.

Table of Contents

Income tax

	Year Ended December 31,			Change	
	2003	2004	2005	2004 vs. 2003	2005 vs. 2004
	(In NIS millions)				
Income tax	245	292	232	19.2%	(20.5)%

The decrease in income tax in 2005 compared to 2004 of approximately 21% was due mainly to a lower income before taxes and a lower income tax rate of 34% in 2005 compared to 35% in 2004.

The increase in income tax in 2004 of approximately 19% compared to 2003 resulted primarily from higher income before taxes.

Net income

	Year Ended December 31,			Change	
	2003	2004	2005	2004 vs. 2003	2005 vs. 2004
	(In NIS millions)				
Net income	431	617	483	43.1%	(21.7)%

The decrease in our net income in 2005 was primarily due to reduced revenues as a result of the reduction of interconnect tariffs by the Ministry of Communications in March 2005. The increase in our net income in 2004 was primarily due to the increase in our gross profit, offset in part by the increase in our selling and marketing expenses and general and administrative expenses, and also due to a sharp decrease in our financing expenses.

U.S. GAAP Results

Our net income in accordance with Israeli GAAP was NIS 418 million and NIS 390 million for the nine months ended September 30, 2005 and 2006, respectively, compared to net income under U.S. GAAP of NIS 460 million and NIS 374 million. For the years ended December 31, 2003, 2004 and 2005, our net income in accordance with Israeli GAAP was NIS 431 million, NIS 617 million and NIS 483 million compared to NIS 441 million, NIS 620 million and NIS 491 million (on a combined basis), respectively. Note 28 to our consolidated financial statements summarizes the principal differences between Israeli and U.S. GAAP that affect our financial results. Our net income is not significantly different under U.S. GAAP from the results under Israeli GAAP due to the offsetting impact of some of the differences. The principal differences affecting our results of operations are:

Push-down accounting. Under U.S. GAAP, DIC s acquisition of our shares 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. Push-down accounting had a significant impact on our balance sheet under U.S. GAAP.

Depreciation of property, plant and equipment. Under U.S. GAAP, each individual significant component is depreciated over its useful life, rather than depreciating all assets on the basis of the estimated useful life of the dominant asset. This leads to decreased depreciation expense under U.S. GAAP. We will adopt a similar policy under Israeli GAAP beginning in 2007.

Table of Contents

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 have 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 ($465 million) and by establishing a credit facility of $350 million. Our Board, 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.

We believe that 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 at least 75% of our net income as determined under Israeli GAAP, subject to compliance with applicable law, our license and contractual obligations (which currently limit distribution of dividends) and so long as the distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. 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

During the first nine months of 2006, we distributed cash dividends in the aggregate amount of NIS 3.83 billion ($890 million) 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 NIS 1.065 billion ($248 million) aggregate principal amount of Series A Debentures and approximately NIS 925 million ($215 million) aggregate principal amount of Series B Debentures. The Series A Debentures bear interest at the rate of 5.0% per year, linked 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, linked 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 debentures are unsecured and do not restrict our ability to issue additional debentures of any class or distribute dividends in the future. The 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.

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 provides for a term loan of $280 million and a revolving credit facility of up to $70 million. The term loan is repayable in installments ranging from 10% to 25% of the principal, commencing 24 months after the date of the agreement and maturing on December 22, 2010. Amounts drawn under the revolving credit facility are repayable within a period of one to six months, at our discretion, and final maturity is December 22, 2010. On April 10, 2006, we converted part of the outstanding dollar loan into an NIS loan. We 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 we 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). As of September 30, 2006, the outstanding principal amounts denominated in U.S. dollars and NIS were as follows: $170 million and NIS 506.4 ($117.7 million) under the term loan facility; and $36.1 million and NIS 107.6 million ($25.0 million) under the revolving credit facility.

Dollar denominated loans under the credit facility bear interest at an annual rate of one-to-six-month LIBOR plus a margin that depends on our ratio of net debt to EBITDA as of the last financial statement provided prior to each interest period as follows: 1.35% if our ratio is equal to or greater than 2.5:1; 1.05% if the ratio is greater than or equal to 1.5:1 but lower than 2.5:1; or 0.80% if the ratio is less than 1.5:1. As of September 30, 2006, the average interest rate on the outstanding dollar loans was three-month LIBOR + 1.05% per year. The NIS loans bear interest at an annual rate of one-to-six-month Tel Aviv Interbank Offered Rate, or TELBOR, plus up to 0.3% and a variable margin ranging from 0.8% to 1.35% , depending on our ratio of net debt to EBITDA, as in the dollar loans described above. As of September 30, 2006, the average interest rate on the outstanding NIS loans was three-month TELBOR + 1.05% + 0.17% per year.

The facility agreement includes standard provisions with respect to voluntary prepayment, events of default, financial covenants and restrictive covenants. The events of default include the loss of control of the Company by IDB or DIC, the revocation of our license, or any amendment of our license that would have a material adverse effect on us, any demands under indemnity letters to local planning and building committees in excess of $50.0 million in the aggregate (or provision or note in our financial statements with respect thereof) and any material adverse change. The financial covenants require that we maintain a ratio of net debt to EBITDA of not more than 2.5:1, and a ratio of EBITDA to net interest expense of at least 5.0:1. The restrictive covenants include, among other things, limitations on liens, loans, guarantees and indemnities, the incurrence of indebtedness, acquisitions, dispositions of assets, mergers and other changes of control. Our credit facility limits our ability to pay dividends, including by limiting our distribution of dividends in respect of any financial year so that any distributions based on retained earnings accumulated since January 1, 2006, do not exceed the lesser of (a) 75% of our aggregate net income from January 1, 2006 to the date of distribution and (b) the aggregate eligible dividend amount from January 1, 2006 to the date of distribution, the eligible dividend amount being the lesser of (i) our net income for each financial year and (ii) the excess of free cash flow over 110% of total debt service for each financial year. In addition, we are also permitted to make distributions out of the expected approximately NIS 280 million ($65.1 million) adjustment to retained earnings referred to above in Overview New Israeli accounting standard affecting measurement of fixed assets. Free cash flow is defined as EBITDA with the addition or subtraction of changes in working capital, minus capital expenditures and any amounts paid or payable in respect of tax. Debt service is defined as the payments on account of principal and interest of our loans, including payments in respect of commissions and other

expenses. Once we have made the required principal repayment under the facility that is due on March 9, 2010, the aforesaid limitation may be replaced, at our option, with a new limitation on dividend distributions such that dividends to be distributed for the period between March 9, 2010 and the final repayment date may not exceed the difference between (a) the forecasted cash, cash equivalents and free cash flow (as defined in the facility, such forecast to be pre-approved by the lenders) for the period ending on the final repayment date (not to exceed our free cash flow for the equivalent period in the previous financial year), and (b) 110% of total debt service for the period commencing on the proposed dividend payment date and ending upon final repayment date. In addition, we are required to enter into foreign exchange and interest rate hedging agreements pursuant to which at least 66% of any loans outstanding at any time under the credit facility agreement are hedged.

Other credit facilities

As of September 30, 2006, a balance of NIS 87.5 million under other credit facilities was outstanding. This balance will be payable as follows: NIS 50 million in November 2006, and the remainder of NIS 37.5 million in six equal quarterly payments until January 2008.

Capital expenditures

Our accrual capital expenditure in 2003, 2004 and 2005 amounted to NIS 658 million, NIS 739 million and NIS 747 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and other assets, such as spectrum licenses, during a given period. For the periods under review, a key focus of our capital investment has been the introduction of our 1800MHz GSM/ GPRS/ EDGE network and the build out of our UMTS/ HSDPA network. With the completion of these projects, we do not intend to embark on any significant capital expenditure programs during 2007.

Cash flows from operating activities

Our cash flows from operating activities increased by 6.7%, from NIS 1,000 million for the nine months ended September 30, 2005 to NIS 1,067 million for the nine months ended September 30, 2006, due primarily to the increase in operating income.

Our cash flows from operating activities decreased by 13.5%, from NIS 1.47 billion for 2004 to NIS 1.27 billion for 2005, due primarily to the decrease in operating income. In addition, cash flows from operating activities increased by 5.6%, from NIS 1.39 billion for 2003 to NIS 1.47 billion for 2004.

Cash flows from investing activities

The net cash flows from operating activities is the main capital resource for our investment activities. In the nine months ended September 30, 2006, net cash used in investing activities amounted to NIS 511 million, primarily to our technological network infrastructure vendors, compared with NIS 445 million during the corresponding period in 2005, which represents an increase of 14.8%.

In 2003, 2004 and 2005, our net cash used in investing activities amounted to NIS 697 million (not including our NIS 189 million long-term deposit repayment), NIS 852 million and NIS 619 million, respectively. The payments were primarily for the expansion of the technological network and information systems infrastructures.

Cash flows from financing activities

The net cash used in financing activities during the first nine months of 2006 amounted to NIS 2,210 million, compared with NIS 536 million during the corresponding period in 2005.

During the first half of 2006 we received long-term loans in the amount of NIS 1.6 billion under the credit facility, and NIS 250 million was received as the result of the issuance of additional debentures of the same series. Furthermore, we paid cash dividends during the first nine months of 2006 in the amount of NIS 3.83 billion.

In 2005, net cash provided by financing activities amounted to NIS 1,114 million, which was generated by the issue of our debentures of NIS 1.7 billion and offset by a repayment of NIS 592 million of bank loans, including NIS 533 million for long-term loans and NIS 59 million for short-term loans. Net cash used in financing activities in 2003 and 2004 were NIS 603 million and NIS 1,068 million, respectively.

During the first nine months of 2006, the average outstanding amount of long-term liabilities (long-term loans and debentures) was NIS 3.2 billion.

During 2005, the monthly average outstanding amount of short-term credit was NIS 50 million. For the same period, the average outstanding amount of long-term loans was NIS 544 million.

During 2004, the monthly average outstanding amount of short-term credit was NIS 123 million. For the same period, the average outstanding amount of long-term loans was NIS 1.3 billion.

Working capital

Our working capital as of September 30, 2006 was NIS 180 million, compared with working capital of NIS 1,909 million as of December 31, 2005. The decline in working capital is the result of the decline in cash and cash-equivalents, resulting from the payment of cash dividends to our shareholders during the first nine months of 2006.

As of December 31, 2004, we had negative working capital of NIS 138 million. The increase in working capital during 2005 was the result of an increase in cash and cash-equivalents, the issue of two series of debentures and the repayment of loans during 2005, as described above. Substantially all of the cash received from the issue of the debentures was distributed as a cash dividend to our shareholders during the first quarter of 2006.

Working capital as of December 31, 2003 was negative, and amounted to NIS 361 million.

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 September 30, 2006, net trade receivables amounted to NIS 1,259 million compared to NIS 1,237 million as at December 31, 2005. This increase was primarily due to the increase in our revenues, which was offset by an increase in the allowance for doubtful accounts of NIS 30 million and a repayment of one receivable in the amount of NIS 43 million. The current maturity of long-term receivables as of September 30, 2006 was NIS 556 million.

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.

Table of Contents

Contractual Obligations and Commitments

Set forth below is a description of our contractual cash obligations, in millions of NIS, as of September 30, 2006.

	Total	2006	2007-2009	2010-2011	2012 and Beyond
Long-term debt obligations (including interest)(1)	4,299	78	1,408	1,413	1,400
Capital (finance) lease obligations					
Operating lease obligations	1,768	67	630	291	780
Purchase obligations	242	16	186	40	
Other long-term liabilities reflected on our balance sheet under GAAP					
Total	6,309	161	2,224	1,744	2,180

(1) Interest on our credit facilities is calculated using LIBOR plus 1.05% and TELBOR plus 0.17% plus 1.175 to 1.25%, depending on the facility, using LIBOR and TELBOR in effect on November 30, 2006. Because the interest rate under the credit facility is variable, actual payments may differ. Interest does not include (a) payments that could be required under our interest-rate swap agreements, which 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.

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 receivables are in NIS. A substantial amount of our cash payments are incurred in, or linked to, non-NIS currencies. In particular, in 2005 and the nine months ended September 30, 2006, payments in U.S. dollars represented approximately 25% of total cash outflows. Also, we are exposed to interest rate risks through our bank and hedging instruments and to possible fluctuations in the Israeli CPI through our debentures. We do not generally hedge our interest rates other than as required by our credit facility, which requires us to hedge a portion of our interest rate exposure.

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 lock in the exchange rates of our transactions denominated in U.S. dollars. We do not hold derivative financial instruments for trading purposes. Nevertheless, under Israeli GAAP, 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.

We protect ourselves from fluctuations in foreign currency rates in respect of our U.S. dollar long-term loans in the amount of $170 million as of September 30, 2006, by utilizing compound foreign currency and interest swaps, throughout the entire period of the loan.

From time to time, we receive short-term U.S. dollar loans with a variable LIBOR interest rate. In order to hedge the possible fluctuations in the foreign currency exchange rate between the U.S. dollar and the NIS, we execute swap transactions. As of September 30, 2006, we held short-term U.S. dollar loans in the amount of $36 million. These loans have been hedged through a swap transaction for the full period of the loan.

Also, as of September 30, 2006, we had two outstanding series of debentures, which are linked to the Israeli CPI, in an aggregate principal amount of approximately NIS 2.0 billion. During the first nine months of 2006, we executed five forward Israeli CPI/ NIS transactions, in a total amount of NIS 500 million, each for a period of 12 months, 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:

	December 31, 2004		**December 31, 2005**		**September 30, 2006**	
	Par Value	**Fair Value**	**Par Value**	**Fair Value**	**Par Value**	**Fair Value**
			(In NIS millions)			
Forward contracts on exchange rate (mainly US$ NIS)	754	(12)	654	1	486	(27)
Forward contracts on Israeli CPI rate					500	(4)
Options on the exchange rate (mainly US$ NIS)	1,639	12	925	4	796	1
Compounded foreign currency and interest swap					887	(62)
	2,393		1,579	5	2,669	(92)

Sensitivity information

Without taking into account our hedging instruments and based upon our debt outstanding as at September 30, 2006, 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 2.0 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 9.0 million; and
- an increase in NIS interest rates of 100 basis points would increase our annual interest expense by approximately NIS 6.2 million ($1.4 million). An increase in U.S. dollar interest rates of 100 basis points would increase our annual interest expense by approximately $2 million.

Application of Critical Accounting Policies and Use of Estimates

Until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of the NIS based upon changes in the Israeli CPI. Accordingly, among other things, non-monetary items (such as fixed assets) were

Table of Contents

adjusted based on the changes in the Israeli CPI from the index published in respect of the month of all of the transactions up to the index in respect of the balance sheet month. Starting January 1, 2004, the adjustment of financial statements for the impact of the changes in the purchasing power of the Israeli currency was discontinued. The adjusted amounts included in the financial statements as of December 31, 2003 constitute the starting point for the nominal financial report as of January 1, 2004. Any additions made during the period are included in their nominal values.

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 2.L to our consolidated financial statements included elsewhere in this prospectus, we recognize revenues from services as they are provided and revenues from sales of handsets and accessories upon delivery.

Assumptions/approach used

We recognize service revenues based upon minutes used, net of credits and adjustments for service discounts. As a result of the cutoff times of our multiple billing cycles each month, we are required to estimate the amount of service revenues earned during the period, but not yet billed, from the end of each billing cycle to the end of each reporting period. These estimates are primarily based on historical usage and billing patterns.

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 provisions (relevant to revenue recognition) recorded for each reporting period represent its best estimate of future outcomes, but the actual outcomes could 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 network equipment by the straight-line method, on the basis of the estimated useful lives of the dominant asset within each group of assets, mainly over 6.7 years (15% per year). On January 1, 2007, a new Israeli accounting standard will come into effect, pursuant to which we will retroactively separate individual components with estimated useful lives that are different from the entire network, mainly transmission equipment (such as fiber-optic cables) and infrastructures. The retroactive application of this depreciation of individual components is expected to have a material effect on our results of operations and financial position for all of the reported periods. See New Accounting Standards Israeli Accounting Standard No. 27, Property, plant and equipment . Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms that are reasonably assured. We periodically review changes in our technology and industry conditions to determine adjustments to estimated remaining useful lives and depreciation rates. Such adjustments would affect depreciation prospectively.

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, 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 Israeli Accounting Standard No. 15, or whenever events or changes in circumstances indicate that their carrying values may not be recoverable through undiscounted future cash flows. If necessary, we write down 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 undiscounted 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.

61

Effect if different assumptions used

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

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. A different method of determining fair value, other than a discounted cash flow model, could result in a lower or higher fair value for the asset group.

Since our incorporation, we have written down an aggregate of NIS 10 million of the value of our real estate property in Modi in, Israel.

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 the inability of certain subscribers to make required payments.

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.

Liabilities arising from litigation

We are involved in various claims and legal actions arising in the ordinary course of business. We make provisions for liabilities arising from litigation in accordance with SFAS No. 5, which requires us to provide for liabilities arising from litigation when the liabilities become probable and estimable. We continually evaluate our pending litigation to determine if any developments in the status of litigation require an accrual to be made. It is often difficult to accurately estimate the ultimate outcome of the litigation. These variables and others can affect the timing and amount we provide for certain litigation. Our accruals for legal claims are therefore subject to estimates made by us and our legal counsel, which are subject to change as the status of the legal cases develops over time. Such revision in our estimates of the potential liability could materially impact our financial condition, results of operations or liquidity.

Push-down accounting for U.S. GAAP only

Following its acquisition in September 2005, DIC held a 94.5% controlling interest in our outstanding share capital, and 100% control of our voting rights. As a result, SEC Staff Accounting Bulletin Topic 5J, requires the acquisition by the parent company to be pushed-down, meaning the post-transaction financial statements of the acquired company should reflect

a new basis of accounting. In accordance with Israeli GAAP, reflecting the September 2005 transaction through a new basis of accounting is not permitted.

The purchase price paid as a result of this transaction has been allocated to a proportionate amount of our underlying assets and liabilities based upon DIC s acquired interests in the respective fair market values of our assets and liabilities at the date of the transaction. The excess of the purchase price over the identified assets and liabilities is considered as goodwill.

Goodwill and other identifiable assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses are not reversed. Impairment is determined by assessing the recoverable amount of the Company. If the recoverable amount of the Company is less than the carrying amount, an impairment loss is recognized. Any future impairment which might be required, could materially impact our financial condition or results of operations.

Estimates were used in the course of the acquisition by DIC to determine the fair value of the assets and liabilities acquired.

The application of purchase accounting required that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation process required an analysis of all such assets and liabilities including acquired contracts, customer relationships, licenses, contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values were based on, but were not limited to: future expected cash flows; current replacement cost for similar capacity for certain property, plant and equipment; market rate assumptions for contractual obligations; estimates of settlement costs for litigation and contingencies; and appropriate discount rates and growth rates. The approach to the estimation of the fair values of our intangible assets involved the following steps: preparation of discounted cash flow analyses; deduction of the fair values of tangible assets; determination of the fair value of identified significant intangible assets; reconciliation of the individual assets returns with the weighted average cost of capital; and allocation of the excess purchase price over the fair value of the identifiable assets and liabilities acquired to goodwill.

Determining the particular asset economic lives for intangible assets and for tangible fixed assets involves the exercise of judgment and can materially affect the reported amounts for amortization of intangible assets and depreciation of tangible fixed assets.

Income taxes

We account for income taxes under Israeli Accounting Standard No. 19, Taxes on Income. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets and liabilities are classified as current or non-current items in accordance with the nature of the assets or liabilities to which they relate. When there are no underlying assets or liabilities, the deferred tax assets and liabilities are classified in accordance with the period of expected reversal. Income tax expenses represent the tax payable for the period and the changes during the period in deferred tax assets and liabilities.

To compute provisions for taxes, estimates need to be made. Estimates are also necessary to determine whether valuation allowances are required against deferred tax assets. These involve assessing the probabilities that deferred tax assets resulting from deductible temporary

differences will be utilized. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate adjustments to tax income and expense in future periods. We establish reasonable provisions for possible consequences of tax audits. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by ourselves and the tax authorities.

New Accounting Standards

Israeli Accounting Standard No. 26, Inventory

In August 2006, the Israel Accounting Standards Board published Israeli Accounting Standard No. 26, Inventory. This standard provides guidelines for determining the cost of inventory and its subsequent recognition as an expense as well as for determining impairment in value of inventory written down to net realizable value of the inventory. This standard also provides guidelines regarding cost formulas used to allocate costs to various types of inventory. This standard will apply to financial statements for periods beginning on or after January 1, 2007. Implementation of Standard No. 26 is not anticipated to have a material effect on our results of operations and financial position.

Israeli Accounting Standard No. 27, Property, plant and equipment

In September 2006, the Israel Accounting Standards Board published Israeli Accounting Standard No. 27, Property, plant and equipment. Standard No. 27 prescribes rules for the presentation, measurement and recognition of fixed assets and for the disclosure required in respect thereto. Standard No. 27 provides among other things the following:

Revaluation of assets

Standard No. 27 provides that a group of similar fixed asset items should be measured at cost net of accumulated depreciation, less impairment losses, or alternatively, at its revalued amount less accumulated depreciation, whereas an increase in the value of the asset to above its initial cost as a result of the revaluation will be directly included in shareholders equity under a revaluation reserve.

Asset retirement obligations

Standard No. 27 provides, that upon the initial recognition of a fixed asset, the cost of the item should include all the costs expected to be incurred in respect of a liability to dismantle and remove the item and to restore the site on which it was located.

Components depreciation

Standard No. 27 provides that if an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components should be depreciated over their individual useful lives.

Standard No. 27 will apply to financial statements for periods beginning on January 1, 2007, and will be adopted on a retroactive basis, except for asset retirement obligations, for which the initial adoption will be in accordance with the provisions of Standard No. 27.

The initial implementation of Standard No. 27 is expected to have the following effects:

Asset retirement obligations

Implementation of Standard No. 27 is anticipated to result in the initial recognition of liabilities to dismantle and remove assets and to restore the site with respect to our cell sites, retail stores and general and administrative facilities, and accordingly there will be an increase in net book value of the fixed assets and an increase in long-term liabilities due to the obligation for asset retirement. Also, there will be a decrease in retained earnings in the amount of approximately NIS 7 million, net of related taxes. The additional cost will be recognized over the useful life of the asset. The obligation is recognized at fair value, and the accretion expense will be recognized over time as the discounted liability is accreted to its expected settlement value.

Components depreciation

We utilized group depreciation for our network and transmission equipment and depreciation has been calculated on the basis of the estimated useful life of the dominant asset within each group. Upon adoption of Standard No. 27, starting January 1, 2007, we will retroactively separate individual components with estimated useful lives that are different from the entire network, mainly transmission equipment such as fiber-optic cables and infrastructure. The retroactive application of this components depreciation is expected to increase our retained earnings as of January 1, 2007, in the amount of approximately NIS 280 million. It is expected to have a significant effect on our results of operations for future periods.

Israeli Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS). The standard provides that entities that are required to report pursuant to the Securities Law must prepare their financial statements for periods beginning as and from January 1, 2008 according to IFRS. The standard permits early adoption for financial statements released after July 31, 2006.

In accordance with this standard, we are required to include in our annual financial statements for December 31, 2007, balance sheet data as at December 31, 2007 and statement of operations data for the year then ended, that have been prepared according to the recognition, measurement and presentation principles of IFRS.

We are examining the effect of the adoption and implementation of IFRS on our financial statements.

U.S. GAAP Accounting Standards

In December 2004, the Financial Accounting Standards Board, or FASB, issued revised SFAS No. 123(R), Share-Based Payment, or SFAS No. 123(R). SFAS No. 123(R) sets accounting requirements for share-based compensation to employees and requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation. SFAS No. 123(R) is effective in interim or annual periods beginning after June 15, 2005. As of September 30, 2006 and for all reported periods, we did not have any share based compensation available to employees; as such, the adoption of SFAS No. 123(R) did not have an impact on our consolidated results of operations or financial position.

In May 2005, the FASB issued Statement 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3, or SFAS No. 154. SFAS No. 154 changes the accounting for and reporting of a change in accounting principle. The provisions of SFAS No. 154 require, unless impracticable, retrospective application to prior

periods financial statements of (i) all voluntary changes in accounting principles and (ii) changes required by a new accounting pronouncement, if a specific transition is not provided. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate, which requires prospective application of the new method. SFAS No. 154 is effective for all accounting changes made in fiscal years beginning after December 12, 2005. Our adoption of SFAS No. 154 is not expected to have a material effect on our consolidated results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48, or FIN 48, Accounting for Uncertain Tax Positions An Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109 Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the effect that the application of FIN 48 will have on our results of operations and financial condition.

In March 2006, the FASB issued Statement No. 156 that amends FASB Statements No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The new statement should be adopted as of the beginning of the first fiscal year that begins after September 15, 2006. We do not anticipate that the adoption of this new statement at the required effective date will have a significant effect on our results of operations, financial position or cash flows.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, or SFAS No. 157. SFAS No. 157 defines fair value (replacing all prior definitions) and creates a framework to measure fair value, but does not create any new fair value measurements. SFAS No. 157 is effective in the first quarter of fiscal years beginning after November 15, 2007. It will become effective for us on August 1, 2008. We are evaluating how it may affect our consolidated financial statements.

In its September 2006 meeting, the FASB s Emerging Issue Task Force reached a consensus on Issue No. 06-1, Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider, that if the consideration given by a service provider to a manufacturer or reseller (that is not a customer of the service provider) can be linked contractually to the benefit received by the service provider s customer, a service provider should use the guidance in EITF 01-9 to characterize the consideration. EITF 01-9 presumes that an entity should characterize cash consideration as a reduction of revenue unless an entity meets the requirements of paragraph 9 of EITF 01-9. Under EITF 01-9, consideration other than cash consideration should be characterized as an expense. If the service provider does not control the form of the consideration provided to the service provider s customer, the consideration should be characterized as other than cash. The consensus is effective for the first annual reporting period beginning after June 15, 2007. Early adoption is permitted for financial statements that have not yet been issued. Entities should recognize the effects of applying the consensus on this issue as a change in accounting principle through retrospective application to all prior periods under Statement 154. Adoption of this issue is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

THE TELECOMMUNICATIONS INDUSTRY IN ISRAEL

General

The following table sets forth selected macro statistics about Israel at and for the year ended December 31, 2005:

Population (millions)	6.99
GDP ($ billions)	123.7
GDP per capita($)	17,900
Exports of goods & services ($ billions)	56.8
CPI change	2.4%
Long-term local currency sovereign credit rating by S&P	A+
Unemployment rate (December 31, 2005)	8.8%

Source: OECD, 2005 and Ministry of Finance of Israel, 2006.

The size of Israeli telecommunications services revenues in 2005 was approximately NIS 24 billion and telecommunications spending was approximately 4.4% of GDP, higher than in other developed economies such as the European Union and the United States. Telecommunications services consist of five main segments which, except for landline services, are highly competitive. We estimate that, of the total telecommunications services revenues in 2005, approximately 57% was comprised of cellular services, approximately 24% was local landline voice and Internet services, approximately 6% was international voice services and approximately 13% was multichannel television services.

Israel has high penetration rates across all telecommunications services that are in line with or higher than other 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 September 30, 2006 of approximately 116%, representing approximately 8.2 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 three and a half years:

	December 31,			September 30,
	2003	2004	2005	2006
Total subscribers (millions)	6.6	7.2	7.8	8.2
Cellular penetration(%)	98	105	112	116

Source: Reported by Cellcom, Partner and Pelephone. Cellcom estimates for MIRS as MIRS does not disclose operating information.

67

Table of Contents

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 September 30, 2006 was: Cellcom (34.4%), Partner (31.9%), Pelephone (28.7%) and MIRS (5%). Subscriber data are based on public information except for MIRS, which is based on our estimate. However, there is no uniform method of counting subscribers.

We are majority-owned 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 table 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
	Partner begins deploying HSDPA

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 September 30, 2006 was 116%. 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 somewhat lower than 116%.

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

Table of Contents

High cellular voice usage. The average cellular voice usage per subscriber in Israel is more than 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.

Different cellular technologies. We use TDMA, GSM/ GPRS/ EDGE and UMTS/ HSDPA networks. Partner uses GSM/ GPRS and UMTS/ HSDPA networks. Pelephone uses CDMA, CDMA1x and EVDO networks. 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 other 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. 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 other developed economies, which we believe facilitates the acceptance of value-added services.

Calling party pays. In Israel, as in many 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 12.6% in 2005, which is lower than the churn rates in other developed economies.

The following table sets forth a comparison between Israeli cellular services metrics and similar metrics in other developed economies:

	Penetration (%)(1)	2005 MOU (min/month)	2005 Yield per Minute ($c)	2005 ARPU ($)	2005 Data Revenues as % of Total Revenues (%)	2005 Annual Churn Rate (%)
Israel	112%	304	10.6	35.3	9.7%	12.6%
United Kingdom	113%	144	20.5	41.0	21.6%	32.5%
France	79%	224	17.7	46.2	14.0%	20.7%
Germany	96%	83	23.0	29.4	18.6%	19.6%
United States	69%	739	6.0	51.3	6.8%	28.4%
Spain	99%	143	25.7	42.0	12.7%	23.3%
Italy	120%	130	23.7	36.3	14.9%	17.1%
South Korea(2)	79%	181	18.0	38.8	21.1%	30.8%
Taiwan(3)	87%	211	11.2	24.1	5.3%	28.4%

Source: Pyramid Research (except for Israeli penetration which is based on data reported by Cellcom, Partner and Pelephone and Cellcom estimates for MIRS as MIRS does not disclose operating information).

(1) As of December 2005.

(2) Based on the 2005 Annual Reports of South Korean operators, LG Telecom, KT Freetel and SK Telecom, and Goldman Sachs Research.

(3) Based on the 2005 Annual Reports of Taiwanese operators, Chunghwa Telecom, Far Eastone and Taiwan Mobile, and Goldman Sachs Research.

Table of Contents

Landline Services

Voice Services

Bezeq operates approximately 2.9 million lines and provides local services. The second largest competitor in landline telephony services is HOT Telecom, or HOT, jointly owned by the three Israeli cable TV operators, 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 four new players that have entered this market recently, including us and Partner.

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 2005, there were 1.1 million subscribers, and the household penetration rate was 52%. Also, approximately 99% of Bezeq s lines enabled broadband services in 2004.

The dominant broadband access technologies are ADSL and cable. The first 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.

Transmission and landline data services are provided by Bezeq, HOT, Med-1 (whose operations were recently acquired by Partner) and us. These services are provided to business customers and to telecommunications operators.

Internet access is currently provided by five major Internet service providers, or ISPs: Barak, NetVision (Barak and NetVision recently announced a merger between themselves and with Globcall, all three of which are members of the IDB Group), Bezeq International (a wholly-owned subsidiary of Bezeq), Internet Gold and Golden Lines (Internet Gold and Golden Lines recently announced a merger), and some other niche players. All these major providers are also suppliers of international voice services.

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. Bezeq International was created as a wholly-owned subsidiary of Bezeq in 1994 as part of the Israeli government s initiative to separate the major operations of the incumbent operator. Barak and Golden Lines were allocated international voice services licenses and started operating at the beginning of 1997, enabling them to compete with Bezeq International. In April 2004, further competition was introduced in international voice services through the issuance of new licenses to NetVision, Internet Gold and 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.

Table of Contents

BUSINESS

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues and EBITDA for the nine months ended September 30, 2006. 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 September 30, 2006, we provided services to approximately 2.83 million subscribers in Israel with an estimated market share of 34.4%. Our closest competitors have market shares of 31.9% and 28.7%, respectively. In the nine-month period ended September 30, 2006, we generated revenues of NIS 4.2 billion ($974 million), EBITDA of NIS 1429 million ($322 million), and operating income of NIS 762 million ($177 million). See note 3 to the Summary Consolidated Financial and Other 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 167 countries. 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.

Our History

We were incorporated in 1994 in Israel. 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. IDB 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, IDB currently indirectly holds 78.5% of our share capital and voting rights in respect of an additional 5.5% of our share capital.

Following the acquisition by IDB in 2005, IDB 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, and Tal Raz, our Chief Financial Officer, one of the founders and formerly a director of Partner, one of our principal competitors. Our new management team has already 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. In addition, from September 2005 to September 2006, while increasing the number of positions in units that deal directly with our customers (such as sales and service), which we call customer-facing positions, our new management s cost-reduction efforts reduced our overall workforce, including higher-cost temporary workers, by over 2%, primarily through the elimination of over 16% of positions in units that do not deal directly with our customers, which we call non-customer facing positions. Also, contracts with our main suppliers were renegotiated to reduce costs. Our management structure has also been rationalized by providing customer-

facing executives with a direct reporting line to our CEO and through the merging of technology sub-units. Following the implementation of these initiatives, our revenues and operating income increased by approximately 9% and 24%, respectively, and our general and administrative expenses decreased by 5% in the first nine months of 2006 compared to the first nine months of 2005.

The following table presents our number of subscribers and revenues for each of the last five years and the nine months ended September 30, 2005 and 2006:

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
Subscribers (end of period) (in thousands)(1)	2,261	2,468	2,300	2,450	2,603	2,554	2,828
Revenues (in NIS millions)	4,960	5,135	5,261	5,600	5,114	3,845	4,191

(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 subscriber. We now believe that waiting six months to deduct subscribers is preferable since many subscribers that were inactive for three months become active again before the end of six months. As a result, commencing July 1, 2006, we adopted a six-month method of calculating our subscriber base, but 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. We also revised our subscriber calculation methodology in 2003 and 2005 but in each case have not restated prior subscriber data to conform to the new presentation. We estimate that the change in methodology in 2003 led to a decrease in our reported subscriber numbers of approximately 300,000 and the change in methodology in 2005 led to an increase in our reported subscriber numbers of approximately 84,000.

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:

Unique combination of leading market position and strong operational momentum. In the last year, we have achieved market-leading subscriber and revenue growth while steadily strengthening our operating margins. Leveraging a series of brand, customer service and content initiatives and a rationalization of our management structure, our new senior management team has managed to solidify Cellcom s leading market position as reflected in our subscriber base, revenues and EBITDA while controlling capital expenditures.

Strong and distinctive own brand. Our established brand enjoys strong recognition in Israel. Since 2004, we have made the enhancement of our image among consumers a top priority and have invested substantial resources to position 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 1,300 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

Table of Contents

capacity in excess of our own backhaul needs, and covers the majority of Israel s business 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.

Strategic relationship with a leading group of local and international shareholders. 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. In 2006, our shareholder base was broadened as a result of IDB s sale of minority stakes to a series of highly regarded international and local financial investors, including affiliates of Goldman Sachs, Bank Leumi, Migdal Group and the First International Bank of Israel.

Strong management team. Since IDB 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. Under the leadership of Messrs. Erel, Shapira and Raz, 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 that have been higher than those of our principal competitors. 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, or ARPU. We strive to continually improve and enhance the flexibility of our customer service to shorten the time required to fulfill subscriber requests. From September 2005 to September 2006, despite a reduction in our overall workforce, we increased our customer-facing staff by 2%. 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 and we believe that we have significant growth potential in this field. We intend

to continue to invest in the deployment of our high speed UMTS/ HSDPA network, which covered 80% of the populated territory of Israel at the end of 2006, in order to permit higher-quality and higher-speed multimedia content transmission. We also plan to expand our content and data services, products and capabilities through in-house expertise and strategic relationships with leading cellular content providers. For example, in 2006 we introduced Cellcom Heep, a Web 2.0 portal that permits cellular and PC users to upload, review and rate user-generated content and in 2004 we introduced our Cellcom Volume initiative that featured, among other things, the introduction of our cellular music portal.

Grow roaming revenues. We have experienced steady growth in roaming revenues since 2003 and believe that roaming presents an important source of future revenue and profit growth for us. We currently have GSM roaming agreements with over 450 operators in 167 countries, of which 45 operators in 27 countries are also 3G operators, and we aim to increase our number of relationships. In particular, we intend to pursue additional agreements with 3G operators, allowing our and their subscribers to benefit from advanced content and data services when traveling.

Further develop and strengthen the Cellcom brand. External market surveys that we have commissioned indicate that brand recognition has become an increasingly 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. For example, from September 2005 to September 2006, we have reduced our non-customer facing positions by over 16%, including higher-cost temporary workers, while increasing our customer-facing positions. In addition, having already built our own fiber-optic and microwave infrastructure reduces our operating cash costs, as our network maintenance costs and microwave spectrum fees are lower than the lease costs to rent backhaul capacity from Bezeq. We intend to continue to focus on identifying further opportunities to manage our costs without reducing the quality of our service.

Capitalize on our existing infrastructure to selectively provide landline telephony services. Our 1,300 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.

Services and Products

We provide cellular communications services to approximately 2.83 million subscribers, including basic cellular telephony services and value-added services as well as handset sales. 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 and, since July 2006, we have been offering 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 the same family. 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. Many of our post-paid subscribers are able to terminate their relationship with us at any time and some of them 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 unique 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 September 30, 2006, we had commercial roaming relationships with over 450 operators in 167 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 September 30, 2006, we had 3G roaming arrangements with 45 of these operators, enabling our 3G roamers to participate in video calls and use high-speed data, video and audio content services in 27 countries. Roaming is an increasingly important revenue stream to us due to the large inbound tourism industry in Israel and extensive overseas travel by Israelis.

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. 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.

Cellcom Heep. This innovative portal enables our subscribers and other cellular and landline Internet users to upload, review and rate user-generated content by using Web 2.0 technology.

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.

Cellcom i-mode. This is a cellular Internet service developed by NTT DoCoMo, a Japanese operator and developer of sophisticated cellular multimedia technology, that enables our subscribers with designated handsets to obtain information and content from designated Internet sites in a friendly, easy-to-use manner.

Access to third party application providers. We provide our subscribers with access to certain services offered by third party application providers. These services include: 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 in our 3G coverage area, to communicate with each other through video conferences.

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. Where are you? is a location-based service that allows one subscriber to locate another subscriber, subject to the latter s prior approval, such as a parent and child. Cellcom Navigator is a service provided through a third party that enables our subscribers to receive real-time travel directions 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.

We have established relationships with content providers to provide us content for our value-added services, including Logia Development and Content Management Ltd., 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

Table of Contents

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. We offer a variety of handsets from world-leading brands such as Motorola, Nokia, Samsung and Sony-Ericsson. All of the handset models we sell offer Hebrew language displays in addition to English. 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 40 walk-in centers.

Landline services

In addition to our cellular services, we provide landline telephony, transmission and data services, using our 1,300 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.

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/ HSDPA, or high-speed downlink packet data access, technology, offers full interactive multimedia capabilities with current data rates of up to 1.5Mbps on the downlink path and up to 384Kbps on the uplink path. This network, considered to be a 3/3.5G technology, is a network that uses the same core as, with its access facilities in some cases co-located with the cell sites of, our existing GSM/ GPRS/ EDGE network. We expect our UMTS/ HSDPA network to cover more than 80% of the populated territory in Israel by the end of 2006. By 2007, this network is expected to enable transmission of up to 14.4Mbps on the downlink path and up to 1.8Mbps on the uplink path. Moreover, our UMTS/ HSDPA 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/ HSDPA 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/ HSDPA network by means of smart features and network load sharing. Over 90% of our traffic uses our GSM/ GPRS/ EDGE and UMTS/ HSDPA 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. Less than 10% 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 1,300 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.

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 September 30, 2006, we had invested an aggregate of NIS 7.022 billion ($1.596 billion) on our network infrastructure since our inception in 1994.

We plan to cover 80% of the populated areas of Israel with our UMTS/ HSDPA network by the end of 2006. Our UMTS/ HSDPA network is mostly co-located with our GSM/ GPRS/ EDGE network. The suppliers of our UMTS/ HSDPA network are Ericsson Israel (for the 3G radio access network) and Nokia (for our core network).

Our GSM/ GPRS/ EDGE network currently covers substantially all of the Israeli populated territory, and is being continually expanded to support capacity growth. We are currently selectively enhancing and expanding our GSM/ GPRS/ EDGE network, primarily in urban areas, by adding infrastructure to improve outdoor and indoor coverage. Our GSM/ GPRS/ EDGE network was supplied and is maintained by Nokia Israel.

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/ HSDPA 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 complete the build-out of our UMTS/ HSDPA network and achieve quality and coverage parameters similar to those in our other networks. 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 high-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 have always been 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 for our TDMA network, and 2x17 MHz in the 1800 MHz frequency band for 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. Currently, we are not making use of our TDD spectrum due to the unavailability of equipment that can support this spectrum. 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 Regulatory Matters 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

Table of Contents

parties generally have limited liability for direct damages of up to 40% of the value of the agreement.

We entered into our 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. We are obligated to purchase maintenance services from Nokia Israel for five years from the final acceptance of the GPRS system (until 2007). Thereafter, 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 existing 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. 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 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 September 30, 2006, we had deployed more than 1,900 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 dashboard that displays 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 data mining and reports generated by Informatica and Cognos. The data warehouse contains data on our subscribers use 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 bonuses. 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. Our calling plans include, from time to time, rebates and other benefits for handset purchases. 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, approximately 40 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 175,000 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 over 130 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. When approached by a customer, our sales representatives (both in-house and outsourced) offer such customer a variety of products and services.

Door-to-door sales. The door-to-door sales team is comprised of approximately 350 dealers sales representatives. 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. All information derived from our market surveys is uploaded into a database. Once a potential customer is identified, we

Table of Contents

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 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 800,000 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 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. Our marketing and branding campaign has been very successful and highly acclaimed among the Israeli public, and our Cellcom Volume initiative in particular have provided us with a high visibility association with music content services. Out of 13 surveys conducted in 2005 by *Globes,* the leading Israeli business newspaper, our advertisements were selected as the most memorable and beloved eight times.

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. During 2006, we implemented an application that provides a customer service representative a one-screen solution which unifies comprehensive customer data from our various systems, thus shortening the time required to provide service and improve service quality. 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: 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. Based on our internal reviews, the average waiting time for subscribers who contact our call center is well under a minute. If calls go unanswered for longer than our guidelines require, a flashing light is automatically activated in our corporate headquarters, alerting management to the delay. We currently operate call centers in four locations throughout Israel, one of which is outsourced. On average, we respond to one million calls every month. During peak hours our call centers have the capability to respond to 700 customer calls simultaneously.

Walk-in centers. We currently operate approximately 40 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 onsite express repair services, performed by highly skilled technicians, a concept rarely seen in most western European countries. This enables a subscriber to deposit a handset with our repair lab and receive the repaired handset, on average, within one hour. If a repair service is expected to take longer, we provide the subscriber with a substitute handset.

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.

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 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.

Table of Contents

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 2008.

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.

As of September 30, 2006, we had 3,488 full-time equivalent employees, as set forth in the table below. Since we are committed to provide the best service to our subscribers, more than 75% of our work force is engaged in customer facing positions.

Unit	Number of Full-Time Equivalent Positions
Management and headquarters	31
Human resources and administration	42
Marketing	69
Business customers	331
Sales and service	1,904
Operations and supply chain	411
Finance	115
Technologies	585
Total	3,488

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. For those of our employees who are entitled to a pension arrangement, 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. A provision in our financial reports covers severance pay to those employees who are not entitled to managers insurance or other pension arrangements. 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 17.7% of an employee s wages (up to a specified amount), of which the employee contributes approximately 12% and the employer contributes approximately 5.7%.

Table of Contents

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 2,500 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 contribute funds on behalf of some of our employees to a managers insurance fund or other pension arrangement. We also contribute funds on behalf of some of our employees to an education fund.

See Management Employee Benefit Plans for a description of additional employee benefit plans.

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.

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.

Facilities

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