
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report

Commission file number 001-33271

CELLCOM ISRAEL LTD.

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

ISRAEL

(Jurisdiction of incorporation or organization)

10 Hagavish Street, Netanya 4250708, Israel

(Address of principal executive offices)

Liat Menahemi Stadler, 972-52-9989595 (phone), 972-98607986 (fax), LIATME@cellcom.co.il, 10 Hagavish Street, Netanya 4250708, Israel

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

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

Title of each class

Ordinary Shares, par value NIS 0.01 per share

Name of each exchange on which registered

New York Stock Exchange ("NYSE")

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2017, the Registrant had outstanding 101,044,557 Ordinary Shares, par value NIS 0.01 per share.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the Registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

Item 17

Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

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

Presentation of Financial and Share Information

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless we indicate otherwise, U.S. dollar translations of the NIS amounts presented in this annual report are translated for the convenience of the reader using the rate of NIS 3.467 to \$1.00, the representative rate of exchange as of December 31, 2017 as published by the Bank of Israel. The translation is for the convenience of the reader only, and it does not represent the fair value of the translated assets and liabilities.

Trademarks

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

Industry and Market Data

This annual report contains information about our market share, market position and industry data. Unless otherwise indicated, this statistical and other market information is based on statistics prepared by the Ministry of Communications of Israel, Brandman Marketing Research and Consultancy Institute, Sapio Research and Development Pyramid Research and Meida Shivuki C.I (survey institute). Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. We have not independently verified the accuracy of market data and industry forecasts contained in this annual report that were taken or derived from these industry publications.

Special Note Regarding Forward-Looking Statements

We have made statements under the captions "Item 3. Key Information - D - Risk Factors," "Item 4 – Information on the Company," "Item 5. Operating and Financial Review and Prospects," and in other sections of this annual report that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled "Item 3. Key Information - D. Risk Factors." You should specifically consider the numerous risks outlined under "Item 3. Key Information - D. Risk Factors."

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. *SELECTED FINANCIAL DATA*

You should read the following selected consolidated financial data in conjunction with the section of this annual report entitled “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements, the notes thereto, the independent registered public accounting firms’ report and the convenience translation of the consolidated financial statements as of and for the year ended December 31, 2017 into U.S. dollars solely for the convenience of the reader, included elsewhere in this annual report.

The selected data presented below under the captions “Income Statement Data” and “Statement of Financial Position Data” for, and as of the end of, each of the years in the five-year period ended December 31, 2017, are derived from the consolidated financial statements of Cellcom Israel Ltd. and subsidiaries. The consolidated financial statements as of December 31, 2016 and 2017, and for each of the years in the three-year period ended December 31, 2017, and the report thereon, are included elsewhere in this annual report.

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

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented at December 31, 2017, translated using the rate of NIS 3.467 to \$1.00, the representative rate of exchange on December 31, 2017 as published by the Bank of Israel.

	Year Ended December 31,					
	2013	2014	2015	2016	2017	2017
	(In NIS millions, except where indicated otherwise)					(In US\$ millions)
Income Statement Data:						
Revenues	4,927	4,570	4,180	4,027	3,871	1,117
Cost of revenues	2,990	2,727	2,763	2,702	2,680	773
Selling and marketing expenses	717	672	620	574	479	138
General and administrative expenses	570	463	465	420	426	123
Other (income) expenses, net	(1)	46	22	21	(11)	(3)
Operating income	651	662	310	310	297	86
Financing expense, net	246	198	177	150	144	42
Income tax	117	110	36	10	40	11
Net income	288	354	97	150	113	33
Basic earnings per share (in NIS)	2.89	3.51	0.95	1.47	1.11	0.32
Diluted earnings per share (in NIS)	2.86	3.48	0.95	1.47	1.10	0.32
Weighted average ordinary shares used in calculation of basic earnings per share (in shares)	99,495,525	99,924,306	100,589,458	100,604,578	100,654,935	100,654,935
Weighted average ordinary shares used in calculation of diluted earnings per share (in shares)	100,319,724	100,706,282	100,589,530	100,698,306	100,889,661	100,889,661
Statement of Financial Position Data:						
Cash and cash equivalents	1,057	1,158	761	1,240	527	152
Working capital	1,082	837	625	1,074	692	200
Total assets	7,579	7,240	6,278	6,662	6,087	1,756
Total equity	710	1,092	1,185	1,340	1,441	415
Other Data:						
EBITDA(1)	1,335	1,282	872	858	853	246
Capital expenditures	384	487	396	382	550	159
Dividends declared per share	0.85	-	-	-	-	-
Net cash from operating activities	1,556	1,557	836	781	774	223
Net cash used in investing activities	(344)	(350)	(96)	(364)	(644)	(186)
Net cash from (used in) financing activities	(1,569)	(1,106)	(1,136)	62	(843)	(243)
Cellular Subscribers (in thousands)(2)	3,092	2,967	2,835	2,801	2,817	2,817
Churn rate of cellular subscribers(4)	36.8%	44.0%	42.0%	42.4%	45.8%	45.8%
Cellular ARPU (in NIS)(5)	78	72	65	63	57	16
Internet customers (households) (end of period) (in thousands)(3)			95	156	222	222
TV customers (households) (end of period) (in thousands) (3)			63	111	170	170

- (1) EBITDA is a non-IFRS measure and is defined as income before financing income (expenses), net; other income (expenses), net (excluding gain from the sale of a subsidiary and expense related to employee retirement plans); income tax; depreciation and amortization and share based payments. We present EBITDA as a supplemental performance measure because we believe that it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structure (most particularly affecting our interest expense given our significant debt), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age of, and depreciation expenses associated with property, plant and equipment. 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 IFRS as a measure of our profitability or liquidity. EBITDA does not take into account our debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, EBITDA, as presented in this annual report, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,					
	2013	2014	2015	2016	2017	2017
	(In NIS millions)					(In US\$ millions)
Net income	288	354	97	150	113	33
Financing expense, net	246	198	177	150	144	42
Other expenses (income),net (excluding gain from the sale of a subsidiary expense related to employee retirement plans);	(1)	7	(3)	8	(1)	-
Taxes on income	117	110	36	10	40	11
Depreciation and amortization	676	610	562	534	555	160
Share based payments	9	3	3	6	2	-
EBITDA	1,335	1,282	872	858	853	246

- (2) Cellular subscriber data refers to active subscribers. We use a six-month method of calculating our cellular subscriber base, which means that we deduct subscribers from our subscriber base after six months of no revenue generation and activity on our network and no data usage or less than NIS 1 of accumulated revenues for M2M (machine to machine) subscribers. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel. In the fourth quarter of 2013, we removed approximately 64,000 subscribers from our subscriber base, following a change to our prepaid subscribers counting mechanism. As a result of such change, we add a prepaid subscriber to our subscribers base only upon charging a prepaid card and remove them from our subscribers base after six months of generating no revenue. The 2017 cellular subscriber base includes subscribers added to our cellular subscriber base as part of our purchase of an Israeli MVNO's operations during the third quarter of 2017.
- (3) Internet and TV customers refer to active subscribers. Internet households receive end-to-end internet service, including infrastructure (based on the wholesale landline market) and connectivity services.
- (4) Churn rate is defined as the total number of voluntary and involuntary permanent deactivations of cellular subscribers in a given period expressed as a percentage of the number of cellular subscribers at the beginning of the period. Involuntary permanent deactivations relate to cellular subscribers who have failed to pay their arrears for the period of six consecutive months. Voluntary permanent deactivations relate to cellular subscribers who terminated their use of our cellular services. Churn rate data is excluding the above mentioned removals of subscribers.
- (5) Average monthly revenue per cellular subscriber (ARPU) is calculated by dividing revenues from cellular services for the period by the average number of cellular subscribers during the period and by dividing the result by the number of months in the period. Revenues from inbound roaming services and hosting and network sharing services are included even though the number of cellular subscribers in the equation does not include the users of those roaming, hosting and network sharing services. Inbound roaming services, hosting and network sharing services are included because ARPU is meant to capture all service revenues generated by a cellular network. Revenues from repair services pursuant to a monthly subscription, or Subscription Repair Services, are included because they represent recurring revenues generated by cellular subscribers, but revenues from sales of handsets (which for purposes of this report may include other types of cellular end user equipment, such as tablets), non-subscription repair services carried out on a random basis, or Random Repair Service, and other services are not included. 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 cellular ARPU for each of the periods presented:

	Year Ended December 31,					
	2013	2014	2015	2016	2017	2017
	(In NIS millions, except number of subscribers and months)					(In US\$ millions)
Revenues	4,927	4,570	4,180	4,027	3,871	1,117
less revenues from equipment sales	942	1,005	1,048	994	952	275
less other revenues*	1,034	941	869	881	949	274
Revenues used in cellular ARPU calculation	2,951	2,624	2,263	2,152	1,971	568
Average number of cellular subscribers	3,135,857	3,034,946	2,898,987	2,832,407	2,797,341	2,797,341
Months during period	12	12	12	12	12	12
Cellular ARPU (in NIS, per month)	78	72	65	63	57	16

* Other revenues include revenues from other communications services mainly fixed-line revenues and repair services.

Exchange Rate Information

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

Month	High (NIS)	Low (NIS)
September 2017	3.584	3.504
October 2017	3.542	3.491
November 2017	3.544	3.499
December 2017	3.550	3.467
January 2018	3.467	3.388
February 2018	3.535	3.427

On March 22, 2018 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.480 to \$1.00.

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

Year	Average (NIS)
2013	3.601
2014	3.593
2015	3.887
2016	3.832
2017	3.601

The effect of exchange rate fluctuations on our business and operations is discussed in "Item 11 - Quantitative and Qualitative Disclosures about Market Risk."

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Related to our Business

We operate in a heavily regulated industry, which can harm our results of operations. Regulation in Israel has materially adversely affected our results.

A substantial part of our operations is subject to the Israeli communications laws and the licenses for the provision of different telecommunications services that we received from the Ministry of Communications in accordance with the Communications Law. The interpretation and implementation thereof are not certain and subject to change and disagreements have arisen and may arise in the future between the Ministry of Communications, or MOC, and us. The Communications Law and regulations thereunder grant the Ministry of Communications extensive regulatory and supervisory authority with regard to our activities. The MOC may modify our licenses without our consent and in a manner that could limit our freedom to conduct our business and harm our results of operations. Frequent changes, or changes made or on a timetable we cannot meet, to our licenses and legislation can increase the risk of noncompliance with our licenses or violation of such legislation and our exposure to lawsuits and regulatory sanctions. The MOC has the authority to impose substantial sanctions in the event of a breach of our licenses or the applicable laws and regulations and the authority to revoke them, in case we materially violate their terms.

Our licenses are limited in time and may be extended upon our request to the Ministry of Communications and its confirmation 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 operations are also subject to the regulatory and supervisory authority of other Israeli regulators which have the authority to impose criminal and administrative sanctions against us.

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

approve the annulment or further relaxation of the structural separation requirements imposed on the Bezeq communications group, given its monopolistic or duopolistic powers in most areas in which we compete, and also on the Hot communications group (though to a lesser degree, given that Hot already has substantial leniencies despite its monopolistic and duopolistic powers), especially if carried out before an effective landline wholesale market, which includes both telephony and infrastructure, is effected on both Bezeq's and Hot's infrastructure; set unfavorable regulation, including high tariffs for wholesale services or insufficient mechanisms to prevent Bezeq and Hot from reducing their retail tariffs and thereby reducing the difference between the wholesale and retail tariffs ("margin squeeze"), or fail to enforce regulation with respect to the landline wholesale market resulting in our continued inability to use additional wholesale services. See also "– We face intense competition in all aspects of our business" below and "Item 4. Information on The Company – B. Business Overview "-Competition";

award our competitors certain benefits and leniencies not available to us, including through waiving, easing or not enforcing requirements set in their licenses, or not making similar demands or not imposing similar restrictions. See also "Item 4. Information on the Company – B. Business Overview – Competition", "– Government Regulations – Cellular Segment" and thereunder: "– Mobile Virtual Network Operators" and "Government Regulations – Fixed-line Segment";

- do not renew our licenses (or renew them on terms that are not favorable to us) or the allocation of our frequencies or limit our usage thereof or demand that we return frequencies allocated to us or not allow us to obtain additional frequencies, as such become necessary, or delay the usage of our sharing partners' frequencies by the shared cellular networks or demand that we change frequencies on an unreasonable timetable or bear the costs of such an exchange; See "We may be adversely affected by the significant technological and other changes in the telecommunications industry "below and "Item 4. Information on the Company – B. Business Overview — Network and Infrastructure – Cellular Segment – Network sharing agreements";

impose new safety or health-related requirements;

impose additional restrictions or requirements with respect to the construction and operation of cell sites or the networks;

limit or prevent our ability to cooperate in deploying landline infrastructure with other operators;

impose restrictions or demand we meet additional requirements on the provision of services or products we provide or regulate or otherwise intervene with the terms under which we advertise, market or provide them to our subscribers, credit terms, including in respect of existing agreements;

allow other operators to provide services previously provided only by us to our subscribers;

set higher service standards or costly requirements relating to the service we provide our customers, both in relation to our network quality and coverage and our customer service;

set a timetable for the implementation of new requirements in our license which we cannot meet;

impose a stricter policy or set stricter regulation with respect to privacy protection, such as with regard to data protection, collection, amelioration, segmentation or usage of data, including for commercial activities by us or for the benefit of third parties, such as the General Data Protection Regulation adopted by the European Parliament, in as much as will apply to our operations;

impose regulation on our OTT TV services, including the requirement to finance original productions, imposing or allowing unfavorable or discriminatory terms for the usage of the digital terrestrial television (DTT) broadcasting in Israel or applying such regulation to us and not to other OTT TV providers. See "– Item 4. Information on the Company – B. Business Overview – Government Regulations — Fixed-line Segment – OTT TV"; and

limit or prohibit the renewal of our licenses and allocation of additional frequencies to us, as we are included in the list of concentrated entities (being a subsidiary of Discount Investment Corporation Ltd., or DIC) published annually according to the Law for the Promotion of Competition and the Mitigation of Concentration, or the Concentration Law.

If we fail to compensate for lost revenues, increased expenses (objectively or in comparison to our competitors) or additional investments resulting from past or future legislative or regulatory changes with alternative sources of income or otherwise, our results of operations may be materially adversely affected.

We face intense competition in all aspects of our business.

The Israeli telecommunications market is highly competitive in many of its elements. The competition level has increased substantially in recent years, following the entry of additional competitors and regulatory changes alleviating entry barriers and transfer barriers. We entered the TV market through our OTT TV service in December 2014 and the landline infrastructure market, through the landline wholesale market, in the first half of 2015. In the other markets we operate in and specifically in the cellular market, price competition and erosion, high churn rate and high subscriber acquisition costs continue to materially affect our and other mobile network operators', or MNOs', revenues and profitability. The current level of competition in all the markets in which we operate and aggressive price plan offerings by our competitors may continue. See also the "Competition" section under "Item 4. Information on the Company - B. Business Overview",—"Competition – Fixed-line Segment– Internet infrastructure and Connectivity Business" and "– Telephony Business". Should the current level of competition continue, it will continue to adversely affect our results of operations. Any of the following developments materializing in our market, may result in increased competition and a further materially reduced profitability for us:

tariffs maintained at their current level or decreasing even further, including as part of a bundle;

an ineffective landline wholesale market, including due to the *de facto* exclusion of Hot's infrastructure, the *de facto* exclusion of telephony wholesale services, services provided not in line with the wholesale market criteria and not enforced by the MOC unfavorable pricing harming our ability to provide competitive bundles and compete with the Hot and Bezeq groups, or change of current regulation to a less favorable one, given our dependence on the landline wholesale market in supplying our landline infrastructure services or further escalation of the competition by Bezeq and Hot, given their dominance in the landline market, especially if the structural limitations on these groups are alleviated before an effective landline wholesale market is in effect. See also "Item 4. Information on The Company –B. Business Overview – Government Regulations – Fixed-line Segment – Landline";

annulment or further relaxation of the structural separation imposed on each of the Bezeq and Hot groups as it will provide the Bezeq and Hot groups a competitive advantage, given their dominance in the landline telephony and infrastructure markets and TV market. See also "Item 4. Information on The Company –B. Business Overview – Government Regulations – Fixed-line Segment – Landline";

entrance of new competitors to any of the markets we operate in, or the entry of existing competitors to additional markets or segments where they are currently not or less active, or as a result of regulatory changes, allowing other operators to provide services currently provided only by us to our subscribers. See "Item 4. Information on The Company –B. Business Overview — Competition";

our failure to procure or deploy widespread landline infrastructure or enter into cooperation to use such infrastructure with an operator which owns such infrastructure, given the growth of our TV and internet services, especially if one of our competitors which currently does not own such infrastructure deploys such infrastructure or enters into such cooperation. Further, this may limit our broadband bandwidth offering in comparison to our competitors, since currently our offering of such service is dependent on the landline wholesale market services. See "Item 4. Information on the Company –B. Business Overview — Competition – Fixed-Line Segment";

regulatory changes facilitating even further transfer of customers among operators;

the continued increased competition in the handsets market may result in decreased handset sales. See also "-We may not be able to maintain current handsets sales revenues and profitability." below and "Item 4. Information on The Company –B. Business Overview – Competition – Cellular Segment";

some of our competitors may be able to obtain better access and terms of engagement with international suppliers or foreign carriers, than we do, due to their affiliation with international groups; or

- if our services are adversely affected by, or we are required to bear the costs of, a frequencies change, which do not affect our competitors. See "We may be adversely affected by the significant technological and other changes in the telecommunications industry" below.

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 cellular subscribers. 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.

We have experienced difficulties in obtaining some of these consents and permits, particularly in obtaining building permits for cell sites from local planning and building authorities. As of December 31, 2017, we operated a small portion of our cell sites without building permits or applicable exemptions and approximately 33% of our cell sites without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. Such reliance had been challenged and under an interim order issued by the Supreme Court in September 2010, we are unable to rely on the exemption under cellular networks, other than to replace or relocate existing radio access devices under certain conditions. In 2017, new draft regulations setting procedures for making changes in existing radio access devices including replacement thereof and for the construction of a limited number of new radio access devices exempt from building permits, but requiring certain municipal procedures, were deliberated in the Israeli Parliament's Economic Committee. If the regulations are enacted and the final regulations include significant limitations on the ability to make changes to and construct radio access devices based on such exemption, it may adversely affect our existing networks and our networks' build out. For additional details see "-Item 4.B – Business Overview – Government Regulations – Cellular Segment – Permits for Cell Site Construction".

Additionally, District Court rulings adopted a narrower interpretation of 'rooftops' to which the exemption may be applied.

We also rely on the exemption for our rooftop microwave sites and signal amplifiers (known as 'repeaters'). It is unclear whether other types of repeaters require a building permit.

In addition, we may be operating a significant number of our cell sites in a manner that is not fully compatible with the building permits issued for these cell sites, which may, in some cases, also constitute grounds for termination of our lease agreements for those sites or claims for breach of such agreements.

Pursuant to the Israeli Non-Ionizing Radiation Law, 2006, the granting or renewal of an operating permit by the Commissioner of Environmental Radiation at the Ministry of Environmental Protection of Israel, or the Commissioner, for a cell site or other facility is subject to the receipt of a building permit or an exemption from such a permit.

Several local planning and building authorities are claiming that Israeli cellular operators may not receive building permits, in reliance on the Israeli National Zoning Plan 36, or the Plan, which regulates cell site construction and operation, for cell sites operating in frequencies not specifically detailed in the frequencies charts attached to the Plan and have refused to provide a building permit in a number of cases. Some of the frequencies to which we may be required to transfer according to the MOC's instruction (see "We may be adversely affected by the significant technological and other changes in the telecommunications industry" below) are not specifically detailed in the Plan. Most of our cell sites and many cell sites operated by other operators also operate in frequencies not specifically detailed in the Plan.

Operation of a cell site or other facility without a building permit or operating permit or not in accordance with the permits or other legal requirements may subject us and our officers and directors to criminal, administrative and civil liability, to eviction orders in respect of the cell sites in breach, revocation or suspension of the operating permit, as well as to withholding the grant of operating permits to additional cell sites or demolition orders. As a result, we may be required to relocate cell sites to less favorable locations or stop operation of cell sites.

If we are unable to obtain or rely on exemptions from obtaining or to renew building or other consents and permits for our existing cell sites or other facilities, or if the Plan is changed to include additional restrictions and requirements on the construction and operation of cell sites, it could adversely affect our existing network and its build-out, delay the deployment of our 4G network, negatively affect the extent, quality and capacity of our network coverage and our ability to continue to market our products and services effectively, all of which may have a material adverse effect on our results of operations and financial condition.

For additional details see "Item 4.B – Business Overview – Government Regulations – Cellular Segment – Permits for Cell Site Construction".

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 required to compensate for depreciation of properties included in or neighboring the approved plan.

As a precondition to obtaining a cell site construction permit from a planning and building committee, we are required to provide a letter to the committee indemnifying it for possible depreciation claims and have provided hundreds of such indemnification letters to local planning and building committees. Calls upon our indemnification letters may have a material adverse effect on our financial condition and results of operations. We may also decide to demolish or relocate existing cell sites to less favorable 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.

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

Handsets, accessories and various types of cell sites are known to be sources of non-ionizing radiation emissions and are the subject of an ongoing public debate and concern in Israel. Radio frequency electromagnetic fields were classified by the International Agency for Research on Cancer (an agency of the World Health Organization) as possibly carcinogenic to humans (Group 2B), based on an increased risk for glioma, a malignant type of brain cancer associated with wireless phone use, and research is being conducted in regards to cellular handsets use and cancer and other health risks. The Israeli Ministry of Health published recommendations to take precautionary measures when using cellular handsets, and increasing awareness of the possible risks of cellular phones usage, reducing usage thereof and introducing precautionary measures were the subject of several bills in recent years. While, to the best of our knowledge, the handsets that we market comply with the applicable legislation that relate to acceptable "specific absorption rate," or SAR, levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual level of SAR of the handsets throughout the lifecycle of the handsets, including in the case of handset repair. See also "Item 4. Information on the Company – B. Business Overview – Government Regulations – Cellular Segment – Handsets".

Health concerns regarding cell sites have caused us difficulties in obtaining permits for cell site construction and obtaining or renewing leases for cell sites and even resulted in unlawful sabotage of a small number of cell sites and prompted proposed legislation aimed at increasing the minimum distance permitted between cell sites and certain institutions. Formal positions adopted by various Israeli government ministries with respect to radiation safety, include the 2009 position that cell sites constructed pursuant to a building permit are preferable to radio access devices and that utilizing a cellular network to provide advanced services that can be provided through a landline network is not justified in light of the preventive care principle set forth in the Israeli Non-Ionizing Radiation Law.

If health concerns regarding non-ionizing radiation increase further, or if adverse findings in studies of non-ionizing radiation are published, non-ionizing radiation levels are found to be higher than the standards set for handsets and cell sites, we may be subject to health-related claims for substantial sums. Consumers may also be discouraged from using cellular handsets and regulators may impose additional restrictions on the construction and operation of cell sites or handset and accessories marketing and usage. As a result, we may experience increased difficulty in constructing and operating cell sites and obtaining leases for new cell site locations or renewing leases for existing locations, or be exposed to property depreciation claims; and we may lose revenues due to decreasing usage of our services and be subject to increased regulatory costs. We have not obtained insurance for these potential claims. An adverse outcome or settlement of any health-related litigation against us or any other provider of cellular services could have a material adverse effect on our results of operations, financial condition or prospects.

The unionizing of our employees may impede necessary organizational and personnel changes, result in increased costs or disruption to our operation.

In February 2015, we entered into the first collective employment agreement with our employees' representatives and the Histadrut, an Israeli labor union, for a term of 3 years (2015-2017). We are negotiating the renewal of the agreement. The agreement defines employment policy and terms in various aspects, including payments to the employees, procedures relating to manning a position, change of place of employment and dismissal, including management's and the employees' representative's respective authority with regards to each. As a result, our day-to-day operations and our ability to execute organizational and personnel changes is more limited, cumbersome, costly and lengthy, as reflected in the voluntary retirement plans carried out in 2014 - 2016, and requires more management attention that would otherwise be available for our ongoing business. In March 2018, the Histadrut announced a labor dispute at the Company, allegedly with respect to the negotiations in connection with the renewal of the agreement and lack of good faith by management in relation to the labor relations in the Company. Under the announcement, the Company's employees would be entitled to take organizational steps (including a strike). The Company rejects all such claims.

Disagreements with the employees' representatives, may trigger work stoppages or other disruptions to our operation and an adverse impact on our services or customer service, changes may fail to be executed or be executed in a materially different way than planned, resulting in substantially lower savings than expected or requiring materially increased employment costs. Furthermore, the renewed collective agreement may increase our costs even further. Increased costs, inability or limited ability to make organizational and personnel changes, as well as work stoppages or other disruption to our operations and limitations on management's discretion, may damage the efficiency and quality of our operations, and may lead to damage to our reputation, increased customer churn, loss of market share and reduced profitability.

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, as well as the multitude of pricing plans for stand-alone and bundles of services, the large amount of usage data our information systems need to process and record with relation to our subscribers according to their respective pricing plans, the frequent and multiple changes to our operation and pricing plans due to regulatory changes or in response to the changing market conditions, and the involvement of thousands of sales and customer service representatives in the sale process and after sale contacts with our existing or prospective customers - all increasing the risk of discrepancies occurring between a pricing plan and the information processed by our internal information systems or inadequate information provided, despite our continued efforts to the contrary - we are subject to the risk of a large number of lawsuits, including class action suits by consumers and consumer organizations. These actions are costly to defend and could result in significant judgments against us, which may materially and adversely affect our financial results. Recent years were characterized by a substantial increase in the number of purported class actions filed and approved in Israel, the greater involvement of consumer organizations and the Attorney General. This trend is expected to continue. In addition to seven class actions approved against us to date, we have entered into several settlement agreements, mostly for immaterial sums, and are currently engaged in dozens of purported class action suits as a defendant, many of which are for substantial amounts. For a summary of certain material legal proceedings against us, see "Item 8 – Financial Information - A. Consolidated Statements and Other Financial Information –Legal Proceedings".

Further, predefined damages (set forth in the Consumer Protection Law) for a discrepancy from a customer's pricing plan, remedied after the customer complained, may aggregate to substantial amounts if paid to numerous customers on multiple occasions.

We employ thousands of employees and are therefore subject to the risk of employee lawsuits, including class action suits by employees.

We are subject to the risk of intellectual property rights claims against us, in relation to our products and services including TV service and other content related services, including video, photographs, music, music-related or other content we purchase from third party content providers. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages or may be required to obtain licenses for the infringing product or service, which, if in substantial sums, could harm our results of operations. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be forced to stop using or selling the products and services. We may not have insurance coverage for these types of claims.

Our operations are dependent on complex technology and information systems.

Our operations are dependent on a number of complex technological and information systems, including billing systems. The occurrence of malfunctions in such complex and ever changing and expanding systems is inevitable. In addition, we are in the process of implementing one customer relation management, or CRM, system for both our cellular and fixed-line operations, which may result in larger expenditures than anticipated, require significant management attention that would otherwise be available for our ongoing business, or lead to unforeseen operating difficulties and malfunctions. A malfunction in any of our systems which severely impacts our ability to provide products and services to our customers or adequately bill them, may result in loss of revenues to us, may adversely impact our brand and service perception, and expose us to legal claims and regulatory sanctions, all of which may adversely affect our results of operations.

Cyber attacks impacting our networks or systems could have an adverse effect on our business.

Cyber attacks, including through the use of malware, computer viruses, dedicated denial of services attacks, credential harvesting and other means for obtaining unauthorized access to or disrupting the operation of our networks and systems and those of our suppliers, vendors and other service providers, could have an adverse effect on our business. Cyber attacks may cause equipment failures, loss, disclosure, access, usage, corruption, destruction or the appropriation of information, including sensitive personal information of customers or employees, or valuable content and technical and marketing information, as well as disruptions to our or our customers' operations. Cyber attacks against companies have increased in frequency, scope and potential harm in recent years. Further, the perpetrators of cyber attacks are not restricted to particular groups or persons. These attacks may be committed by company employees and agents, advertently or inadvertently, or by external actors operating in any geography, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective, and may even be launched by or at the behest of nation states. While, to date, we have not been subject to cyber attacks which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risks associated with cyber attacks, including protection of our systems and networks, may be insufficient to repel or mitigate the effects of a major cyber attack in the future.

The inability to operate our networks and systems or those of our suppliers, vendors and other service providers as a result of cyber attacks, even for a limited period of time, may result in significant expenses to us and/or a loss of market share to other communications providers. The costs associated with a major cyber attack on us could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cybersecurity measures and the use of alternate resources, lost revenues from business interruption and litigation. The potential costs associated with these attacks could exceed the insurance coverage we maintain. Further, certain of our businesses, such as those offering security solutions and infrastructure and cloud services to business customers, could be negatively affected if our ability to protect our own networks and systems is called into question as a result of a cyber attack. In addition, a compromise of security or a theft or other compromise of valuable information, such as financial data and sensitive or private personal information, could result in lawsuits and government claims, investigations or proceedings. Any of these occurrences could damage our reputation and could further result in material adverse affect on our results of operation or financial condition.

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

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

our founding shareholder, Koor Industries Ltd. (wholly owned by DIC), or Koor (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 5% of our outstanding share capital and each of our other means of control;

a majority of our directors must be Israeli citizens and residents;

at least 10% of our directors must be appointed by Israeli citizens and residents among our founding shareholders; and

we are required to have a security committee of our Board of Directors that deals with matters relating to state security.

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.

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

The telecommunications market is known for rapid and significant technological changes and requires ongoing investments in advanced technologies in order to remain competitive. In recent years we have witnessed an immense growth of data traffic on both cellular and fixed-line networks which required us to upgrade our cellular and fixed-line networks and purchase increasingly large capacity for our fixed-line internet connectivity and infrastructure services to accommodate such demand. We estimate that data traffic will continue to rapidly grow in the future, among other things, due to high definition and 4K content and TV services provided over the internet (both cellular and landline). To meet the growing demand for cellular data traffic, we are required, among other things, to continue our investment in our 4G network and the upgrade of our transmission network to allow larger capacity and higher data speed rates. To meet the growing demand for landline data traffic and find more cost effective alternatives for the capacity we purchase from other landline operators who own a widespread landline broadband infrastructure, we have commenced and plan to continue to invest in deploying our own infrastructure. Such an endeavor is both costly and requires management attention which could have been directed elsewhere.

Further, the Ministry of Communications is advancing the replacement of our and another operator's 850 MHz frequencies with 900 MHz frequencies or other sub-1G frequencies compatible with international standardization for our region, which, if effected, will entail a complex and sensitive engineering project, involving material investments in our networks, including the replacement of radio equipment in all of our cellular sites and may, during such project, adversely affect our products and services. Further, some of the frequencies to which we may be required to transfer are not specifically detailed in the Plan, which may impose additional hardship on such replacement. See "We may not be able to obtain permits to construct and operate cell sites".

If we fail to compensate for increased expenses or investments (especially in comparison to our competitors, not all of which will be required to make similar investments or pay increased expenses), due to, among other things, the competitive environment or the inability to charge per usage for high definition content and TV services over the internet, our results of operations may be materially adversely affected.

We may not be able to maintain current handsets revenues and profitability.

Handsets sales account for a substantial portion of our revenues and profitability. In recent years additional competitors have entered the handset market and increased the competition in this market. Additional changes to this market, including the entry of additional competitors, including online retailers, both domestic and international, changes of distribution channels or customers purchasing habits, new legislation and decisions by regulators or the courts effecting our ability to market handsets or our profitability therefrom, may materially adversely affect our handset sales and profitability. See also "We face intense competition in all aspects of our business." above.

Our network sharing agreement consideration constitutes a significant portion of our revenues

Under our network sharing agreement with Golan, we are entitled to an average annual consideration of over NIS 200 million over the agreement term (see "Item 4. Information on the Company – B. Business Overview – Network and Infrastructure – Cellular Segment – Network sharing agreements"). Should Golan fail to make full and timely payments to us, due to financial difficulties, disagreements with us or otherwise, this could materially adversely affect our results of operation.

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

As of December 31, 2017, our total indebtedness and long-term loans were approximately NIS 3,440 million (\$992 million), with our net debt at approximately NIS 2,553 million (\$736 million), and in January 2018 we issued additional debentures in an amount of approximately NIS 401 million. For additional details see "Item 5. Operating and Financial Review and Prospects. – B. Liquidity and Capital Resources – General". The terms of our debentures and other credit facilities currently permit us to incur additional indebtedness (subject in some cases to certain limitations). Our substantial debt could adversely affect our financial condition by, among other things:

increasing our vulnerability to adverse economic, industry or business conditions, including increases in the Israeli Consumer Prices Index, or CPI, as approximately NIS 1,610 million (\$464 million) is CPI linked

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, as well as for dividend distribution; and

limiting our ability to obtain, or resulting in less favorable terms and pricing for, additional financing to operate, develop and expand our business or for refinancing existing debt.

Israeli institutional investors must follow certain procedures and requirements before investing in non-governmental debentures. As a result, our series F through L indentures include certain limitations and covenants, including a covenant not to issue additional debentures if it involves a rating downgrade, certain financial covenants, negative pledge, cross default, limitation on the distribution of dividends, obligation to pay additional interest in case of certain rating downgrades (which occurred under our series F and G debentures in June 2013). For details regarding such limitations and covenants see "Item 5. Operating and Financial Review and Prospects. – B. Liquidity and Capital Resources – Debt Service". These limitations are expected to apply to any additional debt incurred by us. These procedures, limitations and covenants limit our freedom to conduct our business, may impose additional costs on us and may limit our ability to borrow additional debt from Israeli institutional investors as well as adversely affect the terms and price of such debt raising. Further, interest rates are currently very low and future increase of the interest may increase costs for future debt raising.

Any further downgrade in our rating, and any adverse change in our financial results, including any increase in our Net Leverage (defined in our series F through L indentures and other credit facilities as the ratio of net debt to EBITDA during a period of 12 consecutive months, excluding one-time events), may adversely affect the terms and price of debt raised, particularly through the issuance of debentures to institutional investors.

Under the Concentration Law, the Israeli Minister of Treasury must set limitations regarding the aggregate credit that may be provided by Israeli financial institutions to a corporation or a business group (defined as a controlling shareholder and the corporations under its control), which may adversely affect our ability to raise debt from Israeli financial institutions.

Under the "Guidelines for Sound Bank Administration" issued by the Israeli Supervisor of Banks, Israeli banks are subject to limitations on lending money to a single borrower and one group of borrowers and on the aggregate credit that may be provided to large borrowers and groups of borrowers. Under the relevant regulations, Israeli institutional investors are also subject to certain limitations on their total investments (including debt investments) in a single corporation and a group of corporations. This may limit our ability to obtain additional financing to operate, develop and expand our business or to refinance existing debt because, for such purposes, we are deemed to be included in the same group as DIC.

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

A portion of our cash payments are incurred in, or linked to, foreign currencies, mainly U.S. dollars. In particular, in 2015, 2016 and 2017, payments denominated in, or linked to, foreign currencies, mainly U.S. dollars, represented approximately 24%, 14% and 16%, respectively, of our total cash outflow (including payments of principal and interest on our debentures). As almost all of our cash receipts are in NIS, any devaluation of the NIS against the foreign currencies in which we make payments, will increase the NIS cost of our foreign currency denominated or linked expenses and capital expenditures.

Furthermore, since the principal amount of and interest that we pay on our Series F, H and J debentures, are linked to the Israeli CPI, any increase in the Israeli CPI will increase our financing expenses and could adversely affect our results of operations.

We purchase derivative financial instruments in order to hedge part of the foreign currency risks and CPI risks deriving from our operations and indebtedness. Derivatives are initially recognized at fair value. Changes in the fair value of such derivatives are recognized through our income statement upon occurrence. These differences in the derivative instruments' designation could result in fluctuations in our reported net income on a quarterly basis.

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

Our dividend policy targets a payout ratio of at least 75% of our net income in each calendar year, subject to any applicable law, our license and contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. Our series F through L indentures and other credit facilities contain a covenant not to distribute more than 95% of the profits available for distribution according to the Israeli Companies Law, or Profits. Moreover, under such indentures and other credit facilities, if our Net Leverage exceeds 3.5:1, we may not distribute more than 85% of our Profits and if our net leverage exceeds 4.0:1, we may not distribute more than 70% of our Profits. For additional details see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service". In addition, our license requires that we and our 10% or more shareholders maintain at least \$200 million of combined shareholders' equity. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to pay dividends at a ratio to net income that is less than that set in the policy. Since the fourth quarter of 2013, our board of directors chose not to declare dividends, given the intensified competition and its adverse effect on our results of operations and in order to strengthen our balance sheet. See "Item 8. Financial Information - A. Consolidated Statements and Other Financial Information - Dividend Policy".

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

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

We rely on certain suppliers for key equipment and services. We do not own a widespread infrastructure in the landline market and are dependent on infrastructure providers.

We depend upon a small number of suppliers to provide us with key equipment and services. For example, Nokia Networks Israel, or NSN, provides our GSM/GPRS/EDGE/UMTS/HSPA/LTE core system, radio access network and related products and services and Carrier Ethernet network (previously provided by Alcatel Lucent Israel Ltd.); LM Ericsson Israel, or LM Ericsson, supplies part of our radio access network and related products and services based on UMTS/HSPA technology and our OTT TV services platform (recently sold); Cisco Systems, Inc., or Cisco, provides our SDH equipment for our transmission and ISP network; 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 small portion of our cellular related transmission capacity from Bezeq, the incumbent landline operator. Our OTT TV services are further dependent on the Israeli Second Radio and Television Authority, the authority responsible for linear channels of the digital terrestrial television (DTT) broadcasting in Israel.

We are further dependent on infrastructure providers for our internet connectivity, broadband infrastructure (using the landline wholesale market), international long distance calls, or ILD, landline telephony (using Voice over Broadband, or VOB, technology), and OTT TV services. Those providers include Bezeq and Hot, which provide broadband infrastructure in Israel, TI Sparkle Ireland Telecommunications Ltd. (formerly Mediterranean Nautilus Ltd.) and TI Sparkle (Israel) Ltd. (formerly Mediterranean Nautilus (Israel) Ltd.), or collectively TI Sparkle, which connects the Israeli internet network to the global internet network, as well as Israeli telephony, via an underwater communications cable. We are dependent on Bezeq for the provision of our wholesale broadband infrastructure services as well as for the deployment of our independent infrastructure using Bezeq's infrastructure. Should an effective telephony service be provided under the wholesale market and the wholesale market effectively apply to Hot as well, we would be dependent on them for such services as well. Bezeq has breached certain regulatory obligations in the equal provision of wholesale services to its retail customers or refused to provide them at all, and has prevented and delayed the deployment of our independent infrastructure, including through labor disruptions by its employees, and such occurrences may adversely affect us in the future as well. See also "Item 4. Information on The Company – B. Business Overview – Fixed-line Segment".

In addition, our cellular end-user equipment sales have been dominated in recent years by Apple and Samsung products, representing over half of our handset sales. See "Item 4. Information on the Company – B. Business Overview – Cellular Segment – Handsets" for additional details. Altech Multimedia (Pty) Ltd., or Altech, provides our set-top boxes and Vubiquity Management Ltd., or VU, provides us international content and content operation services for our OTT TV services. RGE Group Ltd., or RGE, ONE Sport TV services Ltd., or One, and Charlton Ltd., or Charlton, each provides us with unique sports content.

We rely on agreements with foreign carriers to provide cellular roaming capabilities to our cellular subscribers, ILD services to our cellular and landline subscribers, as well as international voice hubbing (providing ILD services to foreign operators) services. We cannot control or compel the improvement of the quality of the service that they provide and it may be inferior or less advanced than the service that we provide.

In general, if these suppliers fail or refuse to provide equipment, content or services to us that meet requisite quality standards or on a timely basis, at unfavorable terms to us or provide our competitors more favorable terms and conditions, or if these suppliers fail to produce successful and desirable products or content when no equivalent alternatives are available or if a regulatory change prevents our OTT TV customers from using the DTT or condition such usage on unfavorable terms or degradation of service quality, we may be unable to provide services or products to our subscribers in an optimal manner until an alternative source, if one is available, can be found or the situation is rectified, which may harm our ability to compete and result in loss of customers and revenues or place our licenses at risk of revocation for failure to satisfy the required service standards and subject us to customers' lawsuits.

Our investment in new businesses involves many risks.

We have invested and expect to continue to invest in exploration and development of new business opportunities in order to extend and complete our capabilities and offerings, such as the potential investment in or deployment of a wide-spread landline infrastructure, which we are advancing, and our entrance into the Internet of things (IOT) field. Such endeavors may involve significant risks and uncertainties, including shift of management attention from our ongoing business, loss of focus of our sales and marketing efforts on our main businesses due to attention given to new businesses, insufficient revenues to offset liabilities assumed and expenses associated with these new investments, adversely affecting our cash flow, inadequate return of capital on our investments, regulatory changes which may impose additional burdens than planned, inability to effectively compete with incumbent providers or new competitors entering the market, and unidentified issues not discovered in our due diligence of such strategies and offerings, such as unforeseen implementation obstacles and large expenditures. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not materially adversely affect our reputation, financial condition, and operating results. Moreover, entry into such new ventures may trigger increased competitive pressure by the incumbent providers of competing services on our core business, aiming at preventing our efforts to compete with them at the relevant market.

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

As of December 31, 2017, Koor held, directly and indirectly, approximately 42.07% of our outstanding share capital and the voting rights in respect of an additional approximately 3.38% of our share capital, pursuant to shareholders agreements among Koor and certain of our minority shareholders. In January 2018, 5% of our outstanding share capital was transferred (through a lending transaction) by Koor to two Israeli shareholders, which are considered joint controlling shareholders with Koor. According to their agreement with Koor, the Israeli shareholders undertook, among others, to vote with Koor in all shareholders resolutions (including the nomination of directors suggested by Koor). Accordingly, subject to legal limitations, Koor has control (as the term "control" is defined in the Israeli Securities Law, namely the ability to direct a company's activities) over all matters requiring shareholder approval, including the election and removal of our directors (other than external 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.

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. Any armed conflicts, terrorist activities or political instability in the region or hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations, including due to a decrease in the number of tourists visiting Israel and increasing criticism of Israel in the international community (such as the increasing international pressure to boycott Israeli companies, especially when such companies operate in territories held by Israel in Judea and Samaria, as we and other Israeli operators are required to do under our license), and could make it more difficult for us to raise capital. Further, a substantial part of our network and information systems is located within range of missile strikes from the Gaza Strip and Lebanon. Any damage to our network or information systems may damage our ability to provide service, in whole or in part or otherwise damage our operation and could have an adverse effect on our business, financial condition or results of operations.

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.

Israeli law permits the Prime Minister of Israel, for reasons of state security or public welfare, to order a telecommunications license holder to provide services to or to establish a telecommunications facility for the security forces, and entitles the Israel Defense Forces to register or take engineering equipment and facilities as may be required for the security forces to carry out their duties. Israeli law 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. 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. Our other licenses contain similar restrictions.

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

The Israeli Companies 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. Further, the provisions of our licenses require the prior approval of the Ministry of Communications for changes of control in our Company.

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

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

Risks Relating to Our Ordinary Shares

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

Our largest shareholder, Koor, holds approximately 42.07% of our outstanding ordinary shares, as of December 31, 2017 (of which in January 2018, 5% were transferred (through a lending transaction) to two Israeli shareholders, which are considered joint controlling shareholders with Koor). The market price of our ordinary shares could decline as a result of future sales by Koor or other existing shareholders or the perception that these sales could occur. Sales may be made pursuant to a registration statement, filed with the U.S. Securities and Exchange Commission, or the SEC, pursuant to the terms of a registration rights agreement or otherwise, or in reliance on an exemption from the registration requirements of the Securities Act, including the exemptions provided by Rule 144. Any decline in our share price could also make it difficult for us to raise additional capital by selling shares.

In addition, under our 2006 option plan and 2015 option plan, options are subject to vesting schedules but vesting will be accelerated upon certain events including any sale or other disposition of all, or substantially all, of our outstanding shares. As of December 31, 2017 we had 963,665 shares reserved for issuance upon the exercise of options. See "Item 6. Directors, Senior Management and Employment – E. Share Ownership –Share Incentive Plans".

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

Cellcom Israel Ltd. was incorporated in 1994 in Israel. Our principal executive offices are located at 10 Hagavish Street, Netanya 4250708, Israel and our telephone number is (972) 52 999 0052. Our authorized U.S. representative, Puglisi & Associates, is located at 850 Library Avenue, Suite 204 Newark, Delaware 19711 and our agent for service of process in the United States, CT Corporation System, is located at 111 Eighth Avenue, New York, NY 10011.

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

Koor, wholly owned by DIC, currently directly and indirectly holds approximately 42.07% of our share capital (including through being joint controlling shareholder together with two Israeli shareholders of 5% of our outstanding share capital held by them through a lending transaction as of January 2018) and the voting rights in respect of an additional approximately 3.38% of our share capital.

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

On August 31, 2011, we completed the acquisition of 100% of the share capital of Netvision, a major Israeli internet connectivity provider, or ISP and ILD services provider, for a total consideration of approximately NIS 1.57 billion (\$453 million) and in 2017 we completed a reorganization of our subsidiaries, including Netvision, following which all our landline operations are unified under our wholly owned subsidiary Cellcom Fixed Line Communications, Limited Partnership.

In December 2014 and May 2015 we entered the TV and internet infrastructure markets, respectively, which completed our communications offering to include all communications services in Israel.

We hold a general license for the provision of cellular telephone services in Israel, granted by the Ministry of Communications in 1994 and valid until 2022. We also hold a unified general license for the provision of fixed-line services, granted by the MOC in 2015 and valid until 2026.

In 2017, our network sharing and hosting agreements with Golan Telecom Ltd. or Golan, and Marathon 018 Xfone Ltd. or Xfone, and a third agreement combining the 4G network arrangements in the previous two agreements into a three-way agreement (the Xfone agreement, Golan agreement and the three-way agreement shall be referred to as the Sharing Agreements) came into force. For details of our network sharing and hosting agreements with Golan and Xfone, see "B. Business Overview – Network and Infrastructure – Cellular Segment – Network sharing agreements" below.

Principal Capital Expenditures

Our accrual capital expenditure in 2015, 2016 and 2017 amounted to NIS 396 million, NIS 382 million and NIS 550 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and intangible assets, such as investments in our communications networks, information systems, software and TV set-top boxes and capitalization of part of the customer acquisition costs as a result of the adoption of IFRS15.

B. BUSINESS OVERVIEW

General

We operate in two main segments, "Cellular" and "Fixed-line". The cellular segment includes the cellular communications services, end user cellular equipment and supplemental services. The fixed-line segment includes landline and long distance telephony services, internet infrastructure and connectivity services, television services, transmission services end user fixed-line equipment and supplemental services.

Services and Products

Cellular Segment

General

We are the largest provider of cellular communications services in Israel based upon number of subscribers and estimated market share as of December 31, 2017. As of December 31, 2017, we provided cellular communications services to approximately 2.817 million subscribers in Israel with an estimated market share of 26.3%. We offer a broad range of cellular services through our 2G, 3G and 4G network. These services include basic cellular telephony services, text and multimedia messaging, advanced cellular content and data services and other value-added services. We also offer international roaming services, a wide selection of handsets from various leading global manufacturers and repair services on most handsets we offer. Not all services are supported by all handsets or by all of our networks.

We offer our cellular subscribers a variety of usage and sector pricing plans and bundles combining cellular services with other communications services our group offers, including quatro bundles (internet infrastructure service and connectivity, landline telephony, TV service and cellular services). We offer two methods of payment: pre-paid and post-paid. 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. Pre-paid services are offered to cellular subscribers who pay for our services prior to obtaining them, usually by purchasing our "Talkman" pre-paid cards or "virtual" Talkman cards. The majority of our sales are post-paid. Price erosion and the marketing of packages have resulted in a constant decline in our pre-paid subscriber base. In line with regulation, our pricing plans do not include a commitment to purchase our services for a predefined period, other than in large business agreements.

We provide Golan national roaming services under our Sharing Agreements and we provide the Joint Corporations services as a subcontractor. See "-Networks and Infrastructure - Network sharing agreements" below.

Basic cellular services

Our principal cellular service is basic cellular telephony and data transfer, upload and download (in supporting handsets). Both are included in our packages price plans. In addition, we offer many other services with enhancements and additional features to our basic cellular telephony service, including voice mail, cellular fax, call waiting, call forwarding, caller identification and conference calling.

Data services can be used with handsets (in supporting models), cellular modems and tablets. We provide our customers with a variety of "internet data packages" for that purpose.

We also offer both an outbound roaming service to our subscribers when traveling outside of Israel and an inbound roaming service to visitors to Israel who can "roam" on our network. As of December 31, 2017, we had commercial roaming relationships with 551 operators in 180 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). In addition, as of December 31, 2017, we had 3G roaming arrangements with 375 of these operators in 114 countries (part of them for 4G as well), enabling our 3G and 4G roamers to use data services in the respective countries and visiting roamers in Israel of these operators to use our 3G and 4G services, respectively.

Value-added services

In addition to basic cellular telephony and data services, we offer many value-added services, such as SMS and MMS, cloud backup and content services such as "Cellcom Volume" our music application and "Cellcom tv" application. We offer those services that we believe are likely to be popular with subscribers and benefit our business. Some of the value-added services that we offer are available only to subscribers who have supporting handset models and some are offered only to business subscribers.

To our business subscribers we also offer multi SMS, M2M, "Double Net" services allowing combined usage of cellular and landline networks in order to insure continuous service, work force management, vehicles management applications and IOT (internet of things) solutions such as "smart city" end-to-end cellular and fixed line solutions. We are constantly considering and evaluating the possibility of introducing additional products and services to our customers.

Handsets

We sell a wide selection of handsets (which for purposes of this report may include other types of communications end-user equipment, such as tablets) designed to meet individual preferences. Prices of handsets vary based on handset features and special promotions. We offer a variety of installment plans for handsets and discounts for short term installment plans, although in most cases, handsets are to be paid for in 36 monthly installments. We offer a variety of handsets from world-leading brands such as Apple, LG, Samsung and Sony. The vast majority of our handset sales in 2017 have been by Apple and Samsung. The handset models we sell offer Hebrew language displays in addition to English, Arabic and Russian (in most of the models). We are also required to provide cellular services to subscribers who did not purchase their handsets from us, provided that the handset model complies with the standards set by the Ministry of Communications. For details regarding end user equipment repair services see "Customer Care" below.

We also sell modems and tablets to promote our data services. In addition, we sell added value products to our customers, such as smart watches.

Fixed line Segment

Our main fixed line services include our internet infrastructure (for private customers based mostly on the landline wholesale market and for business customers based on our landline infrastructure) and connectivity services, OTT TV services, ILD services, landline telephony services and transmission services (for business customers). We also offer bundles of these services, including a triple offering (internet service including infrastructure and connectivity, landline telephony, TV service) and quatro offering (internet services, landline telephony, TV service and cellular services). We also offer landline transmission and data services to selected business customers and telecommunications operators (including transmission revenues from Golan according to the network sharing agreement as of April 2017), using our fiber-optic infrastructure and complementary microwave links, IP switchboard services and operation and management of business telecommunications systems. Additional services include cloud services and data protection products solutions based on products and services offered by us and by third party vendors and IOT solutions such as "smart city" end-to-end cellular and fixed line solutions.

Internet infrastructure and Connectivity

We are a major provider of internet connectivity services. Prior to the formation of the landline wholesale market, the Israeli internet market was characterized by a separation between the internet infrastructure providers (mainly Bezeq and Hot) and the internet connectivity service providers. Consequently, the internet customer was required to enter into a contractual arrangement with both types of these providers. The infrastructure provider is responsible for the connection of the customer from his computer or other device to the infrastructure provider's operator. The internet service provider is responsible for providing access to the customer from the infrastructure provider's operator, through its own operator, to the local and global internet network. As of May 2015, following the inception of the landline wholesale market, we (and other operators) provide end-to-end internet service (infrastructure and connectivity) using Bezeq's infrastructure. We sell internet infrastructure services bundled with internet connectivity, as well as with our other services. For details regarding the landline wholesale market see "Business Overview – Competition – Fixed-line Segment – Landline" and "Government Regulation – Fixed-line Segment – Landline".

As of December 31, 2017, we provide end-to-end internet service, to approximately 222,000 households.

In addition, we offer our internet subscribers value added services, such as data protection services to our private subscribers and connectivity integration solutions and global communications solutions to our business customers, including firewalls, anti-virus and anti-spam software, overseas internet connectivity services and server hosting services. In addition, we provide internet connectivity services that offer the ability to filter the content viewed by the internet users. We are constantly considering and evaluating the possibility of introducing additional products and services to our customers.

OTT TV services

As of December 2014, we offer OTT-TV services, branded 'Cellcom tv' mostly to private customers. Cellcom tv is an hybrid OTT-DTT TV service provided to the Israeli market. The service includes a set-top box that enables linear channels, including based on the Israeli digital terrestrial television (DTT) broadcasting, other commercial channels and Video on Demand library subscription (SVoD), music streaming service and additional advanced features such as cloud recording and VoD playlist channels, for a highly competitive price. Cellcom tv service can generally also be accessed by smartphones, tablets, Smart TV and additional TV services' equipment like Apple TV and Android TV devices (TV anywhere). Our VoD catalogue and linear channels offer international and local content from top content suppliers. As of December 31, 2017, we provide OTT TV services to approximately 170,000 households.

ILD services

We are one of the major players in the Israeli ILD market. Our principal service in the ILD market is the provision of outgoing and incoming telephone calls with substantially worldwide coverage. We provide these services mostly to post-paid customers, but also to pre-paid customers mainly through the sale of calling cards. Most of the customers of the pre-paid services are foreign workers who reside in Israel.

In addition, we provide "Hubbing" services to non-Israeli international operators. Hubbing services are bridging services between two non-Israeli international operators. Such services are provided by us where there is no direct connection between two non-Israeli international operators or where pricing differences in different locations make such bridging service desirable.

Landline telephony services

We offer advanced, voice and data landline services to selected business customers. We also offer basic landline telephony services to private customers by VOB technology. Landline telephony service enables an end user to conduct a telephone conversation with another end user who uses either another landline or a cellular telephone or computer, either in Israel or overseas.

We estimate that our current market share in the Israeli landline telephony market is not material.

Internet of Things

IOT solutions provide the ability to connect various devices to the internet. We, together with strategic partners, offer IOT solutions based on a variety of communications solutions, including landline (WiFi) and cellular. We offer smart city solutions which include a central management and control system to manage the various solutions, water and electricity meter readout from a-far, smart parking, smart and efficient street lighting, smart cameras which include analytic capabilities for security solutions, smart sensors for efficient waste disposal, various environmental factors and flood alert, stress buttons for educational institutions as well as WiFi and broadband communication capabilities in public areas.

Networks and Infrastructure

Cellular Segment

General

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, while using a cost-effective design, utilizing shared components for our networks, where applicable. We seek to satisfy quality standards that are important to our subscribers, such as high voice quality, high data throughput rate, low “blocked call” rate (average rate of call attempts that fail due to insufficient network resources), low “dropped call” rate (average rate of calls that are terminated not in the ordinary course) and deep indoor coverage. Therefore, we have made substantial capital expenditures and expect to continue to make substantial capital expenditures on our network system, though, pursuant to our Sharing Agreements, radio capital expenditures for the shared networks will be divided among the sharing parties.

Cellular Infrastructure

Our cellular network has developed over the years since we commenced our operations in 1994.

Our “fourth generation” LTE, or Long Term Evolution technology, was launched in August 2014, offers data throughput of up to 112 Mbps on the downlink path and up to 37 Mbps on the uplink path (voice services are provided through our 3G network). Our LTE network covers most of the population of Israel and in 2018 we intend to continue the deployment of this network in order to enable higher data throughput rate. The average throughput indicator is not set in our license. Our 4G network is in the process of being implemented as a shared network with Golan and Xfone and operates in Multi Operation Core Network, or MOCN, mode.

Our “third generation” UMTS/HSPA+, or high-speed packet data access, technology, offers full interactive multimedia capabilities with current data rates of up to 42 Mbps on the downlink path and up to 5 Mbps on the uplink path. In 2018 we intend to continue to support the increasing demand for data traffic, while maintaining its quality of services. This network, considered to be a “3.9” technology, uses the same core as our GSM/GPRS/EDGE network and covers substantially all of the populated territory in Israel. Moreover, our UMTS/HSPA+ network supports types of services that require higher throughput and lower delay, such as video conferencing, and provides an adequate fallback for our LTE network by means of smart features and network load sharing. Our 3G network is to be shared with Golan and will operate in MOCN mode.

Our “second generation” GSM/GPRS/EDGE 1800MHz network allows for voice calls, data transmission and multimedia services, although at slower speeds than our LTE and UMTS/HSPA+ networks, and covers substantially all of the populated territory in Israel. 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 voice services supported by our GSM/GPRS/EDGE technology, the network provides a partial voice fallback for our LTE and UMTS networks.

Most of our traffic uses the UMTS/HSPA+ network with a continuous growth of data using our LTE network.

Our primary objective going forward is to continue deploying our LTE network and to continue to support the increasing demand for data traffic of our high speed UMTS/HSPA+ network and to continue to perform extensive optimization work to provide our subscribers with maximum capability to support video and other broad-bandwidth content. See "Item 3. Risk Factors – We may be adversely affected by significant technological and other changes in the telecommunications industry". Further, we intend to complete the operation of radio network in MOCN with Golan, in accordance with our Sharing Agreements, as sub-contractor for the Joint Corporations. See "- Network sharing agreements" below.

We provide wire-line connectivity for our cellular network mainly through our independent transmission network (based on our fiber-optic network and complementary microwave infrastructure), in substantially all of the populated territory of Israel. We lease complementary capacity from Bezeq. For additional details regarding our transmission network see "- Fixed-line segment – Fixed-line Infrastructure" below.

Pursuant to the requirements of all telephony service providers in Israel, our cellular 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 duplicate back-up center in a separate location and a disaster recovery plan, or DRP, for all our engineering systems. The DRP also provides our network with additional advantages, including increased capacity and also provides us better durability and resilience. We also adopted a business continuity plan and a disaster recovery plan to ensure our ability to continue our operation in emergency situations in accordance with our license.

We intend to complete the deployment of an LTE based IOT service, or LTE-IOT, in the near future, thereby allowing for more advanced and wide IOT solutions. Our LTE-IOT will support both LTE-M and narrow band LTE technologies.

Spectrum allocation

Spectrum availability in Israel is limited and is allocated by the Ministry of Communications through a licensing process. We have been allocated 2 bands of 10 MHz in the 850 MHz frequency band previously used by our TDMA network and currently by our UMTS/HSPA base stations, 2 bands of 20 MHz in the 1800 MHz frequency band, 5 - 15 MHz (varying dependent on usage required in different areas), which are used by our LTE network and our GSM/GPRS/EDGE network (varying dependent on usage required in different areas) and 2 bands of 10 MHz in the 2100 MHz frequency band used by our UMTS/HSPA network. We believe that our available spectrum is sufficient for our current needs.

Out of the 20 1800 MHz, 3MHz were allocated to us in August 2015 by the Ministry of Communications for 4G technologies (such as LTE, LTE Advanced). Unlike our other frequencies allocated to us for the duration of our license, these frequencies were awarded to us for a period of 10 years only.

Our network sharing and hosting agreements will provide the shared networks with additional 2X10 MHz in the 1800 MHz frequency band and 2X10 MHz in the 2100 MHz frequency band (the latter requires certain coordination with the Palestinian mobile network operators). See "– Network sharing agreements" for additional details.

We pay frequency fees to the State of Israel.

The MOC has informed us that it has received an instruction from the International Telecommunications Union to commence a process to accord the frequencies used by Israeli cellular operators with European standards. As a result, we and another cellular operator that use some frequencies according to American standards, will be required to migrate to 900 MHz frequencies or other sub-1G frequencies compatible with international standardization for our region. We are discussing with the MOC the type of replacement frequencies, timing, duration, regulatory adjustments and other repercussions of such a change. At this time, no formal decision has been made and there is no certainty as to the time, scope and cost of such a change, but it may entail a complex and sensitive engineering project, involving material investments and replacement of radio equipment in all our cellular sites and may, during such project, adversely affect our products and services or quality thereof. See "Item 3. Key Information – D. Risk Factors – We operate in a heavily regulated industry, which can harm our results of operations. Regulation in Israel has materially adversely affected our results", "-We may not be able to obtain permits to construct and operate cell sites" and "- We may be adversely affected by significant technological and other changes in the telecommunications industry".

In addition, the Ministry of Communication announced it intends to publish a 5G frequencies tender in 2018 or thereafter.

Cell site construction and licensing

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

Network sharing agreements

In March and April 2017 our Sharing Agreements - the 4G network sharing and 2G and 3G hosting services agreement with Xfone (which has not entered the cellular market yet), and the 3G and 4G network sharing and 2G hosting services agreement with Golan (originally entered into with Electra and adopted by Golan, after being acquired by Electra) and an agreement combining the 4G network sharing arrangements of the Xfone agreement and the Golan agreement into one three-way agreement - came into effect.

The main provisions of the Sharing Agreements are:

- o Network sharing – the parties will cooperate in the development of the shared 3G and 4G networks (as applicable), which will use the parties' relevant frequencies, to be operated by separate, newly created entities, or the Joint Corporations, which are equally owned by the parties. Each of us and the sharing party/parties will hold the active elements of the shared network in equal parts and will grant each other and the Joint Corporations an indefeasible right of use, or IRU, in their active elements of the shared network. To that end, the sharing parties will purchase and hold equal shares of the active elements of the shared network owned by us prior to a certain date. Future ongoing investments in such active elements will be equally borne by the parties. Each party will purchase and operate its own core network. We will further provide the sharing parties and the Joint Corporations an IRU to our passive elements of the shared networks. We provide services to the Joint Corporations, as a subcontractor.
- o Hosting services – we will provide Xfone hosting services in relation to our 2G and 3G networks and to Golan hosting services in relation to our 2G network.
- o Term – the agreements are for a term of ten years (the Xfone Agreement - commencing from the earlier of the commercial launch of cellular services by Xfone or 12 months following the receipt of regulatory approvals for the agreement ("the Xfone Agreement Effective Date")), and will be extended for additional periods, unless either party notifies otherwise. The termination of the Golan Agreement prior to the lapse of the first 10 years due to a breach by Golan will entitle us to liquidated damages of NIS 600 million plus VAT.
- o Consideration –

The average annual consideration to be received by us under the Golan agreement (starting with lower annual payments and increasing over the term) is expected to be in a range of approximately NIS 210-220 million plus VAT, depending on Golan's number of subscribers and their usage of the shared network and our 2G network. Such consideration includes the following components:

- § its share of the active elements of the existing 3G and 4G network owned by us and minimum future investment by Golan in active elements of the shared network;
- § IRU to the passive network; and
- § operating costs of the shared networks and the 2G network (both active and passive), to include a fixed component to be borne equally by the parties, subject to certain discount arrangements dependent on the number of Golan's subscribers, and a variable component to be borne by the parties according to the parties' relative usage of data by their respective subscribers.

The consideration for us under the Xfone agreement includes substantially similar arrangements (*mutatis mutandis* to its sharing and hosting agreement), but Xfone will be entitled to a discount according to which the said payments for the IRU to the passive elements and its share of the operating costs will be replaced during a period of up to 5 years from the Xfone Agreement Effective Date with a monthly payment per subscriber to us of NIS 25 in the first year, NIS 27.5 in the second year and NIS 30 thereafter, plus VAT, but in any case not less than certain minimum annual amounts (ranging between approximately NIS 20 million in the first year and approximately NIS 110 million in the fifth year).

The agreements include standard stipulations as well as certain arrangements for separation of the parities and adding another sharing party. In addition to standard termination causes, Xfone may terminate its agreement by prior written notice if it decides to cease operating in the cellular market in Israel.

The Golan Agreement (which replaces the former national roaming services agreement) includes the following arrangements as well:

- § Loan – Upon closing of the purchase of Golan by Electra in April 2017, we provided a loan to Golan in the sum of NIS 130 million for a period of 10 years to be repaid in 6 semi-annual equal installments beginning in the 8th year of the term (interest and CPI differentials to be accrued and will be paid as of the 6th year). The loan is guaranteed by a second degree floating charge on Golan's assets and rights (excluding certain exceptions) or an equivalent guaranty.
- § Resolution of the previously reported differences regarding past national roaming payments.

We cannot estimate the likelihood or timing of Xfone entering the cellular market.

Fixed-line Segment

Fixed-line infrastructure

We launched our SDH transmission network in 1999 and our Carrier Ethernet network in 2010. In 2015 we launched an MBH network intended to support all our cellular traffic. These networks cover the central populated areas in Israel and business parks. In 2018 we intend to continue to migrate cellular sites to the MBH network. These networks enable us to provide our business customers with telephony and high speed and high quality transmission and data services and provides us with our own wireline connectivity / backhaul services for our cellular networks while reducing our need to lease capacity from Bezeq, the incumbent landline operator in Israel.

Our optical transmission network is strategically deployed in order to cover the major portion of Israel's business parks from Nahariya in the north to Beer Sheva in the south and Afula and Jerusalem in the east, consisting of approximately 1,900 kilometers. The fiber-optic network is monitored by a fault-management system that performs real-time monitoring in order to enable us to provide high quality service. In order to efficiently complete our transmission network's coverage to the majority of our cell sites and business landline and transmission subscribers, we use a microwave network as a complementary solution in those areas that are not served by our fiber-optic network. As of December 31, 2017, we had approximately 2,740 microwave links to both our cell sites and our landline and transmission subscribers.

In 2017, in light of the growing demand for data capacity by our fixed-line subscribers, mainly in the private sector, which we currently purchase from Bezeq, we commenced expanding our fiber-optic network into residential areas, using certain physical infrastructure of Bezeq, and are negotiating a cooperation agreement with Partner Communications Ltd., or Partner, another communications group in Israel, for the deployment of fiber optic infrastructure by both companies, whereby each party will be entitled to purchase from time to time, pursuant to its needs and at its sole discretion, fiber optic infrastructure services (including an indefeasible right of use, or IRU) in the other party's present and future fiber optic infrastructure in order to connect residential buildings throughout Israel. In addition, we are looking into investing (by ourselves or with a group of investors we may arrange) in Israel Broadband Company Ltd., or IBC (whose licenses allow the provision of broadband infrastructure services on the fiber optic infrastructure of Israeli Electric Company, or IEC's), subject to certain conditions being met. In that respect, we have issued a non-binding letter of intent for investing in IBC and have reached preliminary understandings with IEC, regarding an update of IEC's services prices to IBC, if we invest in IBC. Deployment of fiber-optic infrastructure through any of the above venues will require material investments. It would, however, allow us to reduce our costs and our dependency on Bezeq and Hot and improve our ability to provide quality services and compete in the fixed-line services market. There is no assurance that we will enter into any of the contemplated agreements, or, if entered into, that the requisite regulatory approvals will be received and the agreements will be implemented.

In 2017, we continued to expand our Carrier Ethernet network and our ISP network backbone in Israel and abroad in order to support growing demand for capacity, upgraded the capabilities and capacity of our customer Quality of Experience systems and upgraded and improved the capabilities of our central system for the protection of our network against cyber attacks.

Our internet infrastructure is currently comprised of connectivity sites in two locations in Israel (Haifa and Petah-Tikvah), which provide our customers, through overseas connectivity points in London and Frankfurt, with connectivity to the global internet network. This internet infrastructure contains backup capability in order to ensure continuity of service.

Additional transmission capacity required for our fixed line services to business customers is leased from Bezeq and Hot.

We pay frequency fees for frequencies used by our microwave network to the State of Israel.

Suppliers

In April 2014, we entered into a framework agreement with NSN Israel, of Nokia Networks group, a worldwide leading network manufacturer, for the purchase of an LTE network, which also supports LTE Advanced technology (4.5 generation) and related services. This agreement also governs the purchase and services provided under our previous agreement with NSN, in relation to our GSM/GPRS/EDGE /UMTS /HSPA core system, radio access network and related products and services. We have an option to purchase maintenance services on an annual basis until March 2030.

In September 2005, we entered into an agreement with LM Ericsson for the purchase of UMTS radio access network and ancillary products and services and in December 2011 for the purchase of upgraded UMTS /HSPA products and related services. We have an option to purchase additional maintenance services on an annual basis until 2026.

We use Telcordia's (which was acquired by Ericsson) intelligent platform, or IN, which provides services to our networks and allows us, at minimal cost, to internally develop sophisticated services with a short time-to-market that are customized to local market requirements.

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.

Samsung International Co. Ltd. provides us Samsung handsets and spare parts for such products, under terms, including price of products, agreed between us and Samsung from time to time.

In October 2016, we entered into an agreement with Apple Sales International for the purchase and distribution of iPhone handsets in Israel. Under the terms of the agreement, we have committed to purchase a minimum quantity of iPhone products over a period of three years, which are expected to represent a significant portion of our total cellular handsets purchase amounts over that period.

We have entered into a number of agreements with TI Sparkle between 2003 and 2016, for the purchase of rights of use of certain telecommunications capacities on TI Sparkle's underwater communications cables, which connect the Israeli internet network to the "entry points" of the global internet, as well as maintenance and operation services relating to these cables. Over the last few years we have increased the capacity purchased for significantly lower prices, as well as reduced maintenance costs. The term of the agreement with respect to capacity purchased from TI Sparkle is in effect until May 2032. We have the option to terminate agreements with respect to parts of the capacity in 2022 and 2027.

We have also entered into agreements with Bezeq and Hot, the primary internet infrastructure providers in the Israeli market, for the provision of our connectivity services. Due to the increase in customer demand for broadband width in recent years, we are required from time to time to increase the capacity we purchase from Bezeq and Hot. The terms of the wholesale landline infrastructure service we purchase from Bezeq are mainly set in the landline wholesale market regulation. For additional details see "Government Regulation – Fixed-line Segment – Wholesale landline market".

In November 2009, we entered into an agreement with Alcatel Lucent for the purchase of our Carrier Ethernet network. We have an option to purchase maintenance services until 2022.

Under our agreement with Alcatel Lucent, we purchased an SDH transmission network. We purchase maintenance services for the network on an annual basis.

In February 2015, we entered into an agreement with Bynat Communications Computers Ltd., or Bynat, for the purchase and maintenance of an MBH transmission network by Cisco. In the agreement we agreed to purchase maintenance services for a term of 5 years from final acceptance (until 2019), and we may stop purchasing such services subject to the provision of a prior written notice. Thereafter we have an option to purchase maintenance services for a term of 8 years (until 2027).

In June 2004, we entered into an agreement with Nortel Networks Israel (Sales and Marketing) Ltd., or Nortel, for the provision of our international communications switch, on which we base our ability to provide international calling service, as well as related equipment and services. From 2010, Geneband Inc. (which acquired Nortel's relevant business) provides us with support and maintenance services for the equipment provided under this agreement.

We have entered into an agreement with ECI Telecom Ltd. for the provision of transmission switches by ECI Telecom among our various location sites in Israel and overseas, used for our internet connectivity and ILD operations.

Our system for the provision of advanced centrex services based on cloud solutions to our business landline customers, is supplied by Broadsoft Ltd.

Our principal suppliers in the ILD market are Bezeq, Hot and the Israeli cellular operators. We have entered into interconnect agreements with them for facilitating inbound and outbound international traffic to and from their networks, as well as for billing and collection services for our services, for certain customers. We have also entered into agreements with more than 100 foreign carriers. These agreements regulate and facilitate our ILD services, as well as our international voice hubbing services.

In 2011, we entered into an agreement with LM Ericsson, for the purchase of our OTT TV services system and ancillary products and services. We have an option to purchase maintenance services on an annual basis until 2018. Our OTT TV service also uses the Israeli DTT infrastructure. The DTT infrastructure may be used freely by our customers.

In June 2015, we entered into an agreement with Altech, for the purchase and distribution of set-top boxes and ancillary products and services for our OTT TV services.

In 2013, we entered into an agreement with VU (recently purchased by Amdocs (Israel) Limited), a leading international supplier of multiplatform video services and solutions, for the supply of international video content and content operation and management services for our OTT TV service. Under our agreement with VU, we have committed to pay certain fixed amounts for such content and services. The Agreement is valid until the end of 2020; thereafter, it is renewable for additional periods of one year each, unless terminated by either party, subject to prior notice.

In October 2015, January 2016 and December 2016, we entered into agreements with RGE, ONE and Charlton, respectively, for the provision of sport channels, in which each of these suppliers holds exclusive broadcasting privileges. Each of the agreements is for a period of 5 to 6 years, during which time we are committed to pay each supplier certain minimum amounts.

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

Our billing and CRM systems are supported mostly internally. We also use a customer care system provided by PeopleSoft and supported mostly internally, inventory and suppliers management systems by Priority/Eshbel and SAP, a financial system by Coda and infrastructure integrations systems by Microsoft BizTalk and Oracle OSB.

In May 2016, we entered into several agreements aiming to provide us with a comprehensive CRM SAAS solution, on a cloud 'software as a service', or SAAS, basis, which, when completed, will gradually replace all our current CRM systems with one CRM solution. These agreements include the following main agreements:

An agreement with salesforce.com EMEA Limited, or Salesforce, for the provision of Salesforce's CRM SAAS platform, including various products and services and support for the agreement term. The agreement is valid until August 2019, and may be terminated by us in April 2018. We also have an option to renew the agreement for two additional periods of 5 years each under certain terms.

Two agreements with Vlocity UK Ltd., or Vlocity, as follows: (i) an agreement for the provision of Vlocity's telecom-CRM SAAS solution, based on Salesforce platform, including support for such services for the agreement term. This agreement is valid until November 2019, and may be terminated by us in April 2018; and (ii) an agreement for the development and customization for Salesforce's and Vlocity's CRM solution. This agreement will be valid until the project is completed, and may be terminated by us subject to prior written notice.

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

We also use a knowledge management system relating to our various services and products by Aman, branded "Cellclopedia".

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

Cisco provides us maintenance proactive malfunction detection and consultant services for our IP networks equipment. The agreement is effective until the end of 2019.

We entered into an agreement with Be'eri Printers for 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 2003. The agreement was valid until December 2017 and we are negotiating its extension.

Sales and Customer Care and Marketing

Sales and customer care

As part of our strategy to fully penetrate every part of the Israeli market, we combine our sales and customer care efforts in order to maximize sales opportunities and achieve cost efficiency alongside accessible and quality customer service. Our customer service unit is our main channel for preserving the long-term relationship with our subscribers and we focus on customer retention through the provision of quality service and customer care. In addition, subscribers are encouraged to subscribe to additional value-added and content services as well other communications services, in order to enhance customer satisfaction and increase revenues, with a specific focus on bundles of services. We offer pricing plans, value-added services, handsets, accessories and related services through a broad network of direct and indirect sales personnel. We design pricing plans and promotional campaigns aimed at attracting new subscribers and enhancing our ability to retain our existing subscribers. In order to achieve this goal, we systematically monitor and analyze our subscribers' preferences, characteristics and trends.

We pay our independent dealers commissions on sales, while our direct, employee sales personnel receive base salaries plus performance-based incentives. All of our, and our dealers', sales, customer care representatives and other customer-facing staff go through extensive training prior to commencing their work and thereafter regularly undergo training, and review of their performance in order to assure the quality of our services and to identify areas where we can improve.

We provide our customer facing representatives with a continually updated database, thus shortening the interaction time required to satisfy the customer's needs and preventing human errors. We constantly review our performance by reviewing customers applications and conducting surveys among our subscribers in order to ensure their satisfaction with our services and to improve them as necessary. In addition, we constantly apply preventive and preemptive measures aimed at reducing churn.

In our efforts to adjust our costs to new market conditions, we have closed or unified points of sale and service in neighboring locations and reduced or relocated call centers, operating them in a more cost effective fashion, while placing greater focus on self-service channels and proactive malfunction resolution, identifying and solving problems ahead of customer complaint.

Our sales and customer care operation is conducted primarily through the following channels:

Points of sale/Walk-in centers. 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.

As of December 31, 2017, we independently operated approximately 28 service and sales centers, with approximately 200 additional sale and service points operated by our dealers (including our wholly owned dealer, Dynamica), covering almost all the populated areas of Israel. These centers generally offer the entire spectrum of products and services that we provide to our subscribers and potential subscribers. These stores are mostly located in central and other frequently visited locations to provide our subscribers with easy and convenient access to our products and services. In our efforts to penetrate certain sectors of our potential subscriber base, we select dealers with proven expertise in marketing to such sectors. Our walk-in centers also offer handset repair service or serve as a contact point for depositing the handsets for repair and receiving the repaired handset (in the same center or at a location of their choice by a courier), with the repair services conducted in a central lab.

In 2017, we continued reducing the space of several additional points of sale, and we may continue to do so in 2018.

Telephonic sales/Call centers. Telephonic sales efforts target existing and potential subscribers. Our sales representatives (both in-house and outsourced) offer our customers a variety of products and services, both in proactive and reactive interactions. Our call-center services are divided into several sub-centers: general services; technical services; billing; sales; international roaming; and data, internet and TV. We are constantly reviewing the effectiveness of our service and also operate a multi-function call center providing all our services. The call center services are provided in four languages: Hebrew, Arabic, English and Russian. We currently operate call centers in seven locations throughout Israel, three of which are outsourced. In 2017, we witnessed an additional decrease in calls to our calls centers. During peak hours our call centers have the capability to respond to 600 customer calls simultaneously. We are making efforts to reduce the number of calls to our call centers by using our new CRM system to provide a more complete service and promoting our self-service channels.

Account managers. Our direct sales force for our business customers maintains regular contact with our mid-sized and large accounts. We provide small and mid-sized business customers one focal point to both sales and services by phone. Our account managers are aided by our various back office experts in determining customers' needs and making suitable offers, including tailor-made solutions, when required. We offer our business customers handsets repair services by a dispatch service. Sales to larger business customers or governmental and local authorities sometimes involve participation in the customer's tender process.

Online sales/Self service. We offer our customers the ability to purchase our products and services and receive various information through our internet site (and our OTT TV service dedicated internet site) and our smartphone application. We provide our subscribers and potential subscribers with various self-service channels, such as interactive voice response, or IVR, internet site, automatic and live chat and live sms chat, facebook chat and our newly improved mobile phone application which enables our customers to monitor data usage, obtain digital monthly invoices, includes self-service tutorials, online assistance with internet service problems and chat with a service representative. We invest efforts in directing our customers toward self-service channels.

Customer service for our OTT TV and internet infrastructure market services are provided also through technicians providing services at the customers' homes.

We constantly invest time and efforts making our services compatible to persons with disabilities, including as required by law. We provide customers with disabilities convenient accessibility to our premises and adapted services, including free dispatch services, text to speech services as well as support services through chat. We also train our representatives to provide accessible service to all our customers.

Marketing

Our marketing strategy emphasizes our position as a communications group and cellular market leader, our value for money and our provision of a comprehensive solution for our customers' communication needs, by offering bundles of services. We believe the provision of bundles, including triple and quatro play packages of our services strengthen loyalty and increase customer satisfaction. We aim to provide our customers with a comprehensive quality experience through the various means of communications that they use, including their mobile handset, tablet and laptop.

From surveys that we conduct from time to time, we learn that subscribers base their choice of communications provider primarily on the following parameters: the services included in the bundle; perceived price of services and handsets; level of customer service; perceived quality of the network; general brand perception; with regards to the cellular provider - selection of handsets and their compatibility with their needs and with regards to the TV service provider – the quality and variety of content. Our marketing activities take into consideration these parameters and we invest efforts to preserve our subscriber base and attract new subscribers.

We leverage our extensive interactions with our customers to provide the requested services and also to cross- and up-sell cellular and fixed line products and services according to customer needs, usage trends and profitability, mostly by using advanced CRM system models, to increase customer satisfaction, loyalty and revenues.

We regularly advertise in all forms of media, including in promotional campaigns. We also use "one to one" promotional campaigns such as advertisements in our subscribers' monthly bill and in incoming IVR. We believe our marketing and branding campaigns, have been very successful. Our "Cellcom tv" advertisement campaign has been acclaimed among the Israeli public and even contributed to the strength of the "Cellcom" brand.

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

Competition

Competition – General

The principal competitive factors in the telecommunications market include the services included in the bundle, perceived price, general brand perception and customer service.

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

- identifying new opportunities to maximize our advantages as a communications group, such as our successfully launched OTT TV services, internet infrastructure services through the landline wholesale services, IOT and cyber services;

- focusing on the offering of bundles of services such as our successfully launched triple and quatro play offerings, as it strengthens customer retention and on enlarging customer purchases from us;

- entering network sharing and hosting agreements with Golan and Xfone, which will facilitate a more efficient cost structure in relation to our networks and operations thereof and investments therein;

- deploying fiber-optic infrastructure independently or advancing potential cooperation with Partner and investment in IBC, in relation thereof, in order to reduce our dependency on Bezeq and Hot and reduce our cost;

investing in our network to ensure our ability to offer quality and advanced cellular and fixed line services, and providing our customers with advanced services; and

taking aggressive efficiency measures through adjustments to our existing head count, reducing overhead expenses and improving work processes, in order to reduce costs and improve our agility.

Our ability to compete successfully will depend, in part, on our ability to anticipate and respond to trends and events affecting the industry, including the introduction of new services and technologies, changes in consumer preferences, demographic trends, economic conditions, pricing strategies of competitors and changes to the legal and regulatory environment.

Competition may intensify further as a result of the occurrence of any of the events described under "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business."

Communications groups and structural separation

The Israeli telecommunications market is currently dominated by four communications groups: Bezeq, Hot, Partner and Cellcom. Each of the Bezeq and Hot groups are subject to certain structural separation requirements in relation to sale of bundles of services by each of them and their respective subsidiaries, as a result of being the incumbent and monopoly in their respective core business – landline and multichannel television services. Those requirements include Bezeq's obligation to offer some of the services in its bundle separately under the same terms as in the bundle, and the requirement that Bezeq allow its competitors to participate in a similar bundle (if it includes internet connectivity, VOB or ILD services) under the same terms and equally markets such bundles as its own bundle (though the second requirement does not apply to the sale of the bundle by a subsidiary of Bezeq). The same requirements apply to Hot in the case of bundles that include internet connectivity services, with respect to the internet connectivity service component of the bundle.

Following a certain relaxation of the structural separation imposed on the Bezeq group, Bezeq is allowed to offer bundles of services with its subsidiaries under certain conditions, and in 2015 Bezeq merged with Yes (a company providing multichannel pay-TV) (detailed under "-Fixed line Segment – Television services" below). Although the Hot group is also subject to structural separation limitations between its multi-channel television, connectivity, cellular and landline services, it was allowed to offer a bundle of landline telephony, multichannel television and internet infrastructure services and under certain conditions connectivity services as well, and Hot and Hot Mobile are also allowed to sell and market each other's services and exchange information. In January 2016 the Ministry of Communications announced its intention to annul Bezeq and Hot's structural separation as part of its plan to ensure massive investment in fiber optics infrastructure in Israel and in December 2016 the Ministry of Communication informed Bezeq that it intends to hold a public hearing regarding a possible annulment of the corporate separation and thereafter the structural separation in the Bezeq group and Bezeq has announced the commencement of a full merger process with Yes, including full integration of Yes into Bezeq.

Any changes to the structural separation limitations in the Bezeq and Hot groups (especially if it is effected before a complete and effective wholesale landline market is in place) and the supervision over Bezeq's tariffs, or anti-competitive behavior if not prevented by the regulators, could adversely affect our competitive standing and ability to compete with Bezeq and Hot and may have a material adverse effect on our results of operation.

Cellular Segment

There is intense competition in all aspects of the cellular communications market in Israel, with a penetration rate (the ratio of cellular subscribers to the Israeli population) of approximately 121%, representing approximately 10.6 million cellular subscribers at December 31, 2017, and the average annual churn rate in Israel in 2017 is estimated to be 37%, higher than the churn rates in other developed economies. We expect this intensified competition to continue in the future. We currently compete for market and revenue share with seven other cellular communications operators: four MNOs (Partner, Pelephone, Hot Mobile and Golan) and three MVNOs (Rami Levy Hashikma Communications Marketing Ltd., or Rami Levy, Azi Communications Ltd., or Azi, and Cellact Communications Ltd., or Cellact). Xfone won frequencies in the 2015 4G frequencies tender and received a cellular license in 2017 but has not entered the market yet. For details of our network sharing and hosting agreements with Golan and Xfone, see "– Network and Infrastructure – Cellular Segment – Network sharing agreements" above.

Our estimated market share based on number of subscribers was approximately 26.3% as of December 31, 2017. The market shares at such time of Partner, Pelephone, Hot Mobile and Golan were estimated to be approximately 25%, 23%, 14.7% and 8.5%, respectively, and the MVNOs' collective market share was estimated to be 2.2%. These estimates are based on the public reports of other operators and our estimate of the market share of the operators who do not publish reports.

Hot Mobile and Golan commenced their UMTS operation in 2012. Rami LevyAzi and Cellact, all MVNOs, commenced operations in 2011 - 2013.

Partner started operations in 1998 and is controlled by S.B. Israel Telecom Ltd. (indirectly controlled by the media entrepreneur Haim Saban). In March 2011, Partner purchased the outstanding shares of 012 Smile Telecom Ltd., or Smile Telecom, an ISP and ILD operator, now also serving as Partner's cellular low cost brand dealer, and in 2015, its network sharing agreement with Hot Mobile was approved and the two companies began joint operation through a joint subsidiary.

Pelephone is a wholly-owned subsidiary of Bezeq, and started operations in 1986. As of January 2015, its low cost brand services are sold by another subsidiary of Bezeq – Walla Communications Ltd., an internet portal. Bezeq is controlled by B Communications Ltd., or B Communications. B Communications is an Israeli company traded on the NASDAQ and the TASE and controlled by the Israeli businessman Shaul Alovich. Currently, B Communications' controlling shareholder (wholly owned by Shaul Alovich) is in the process of a debt restructuring in the Israeli court in which several offers for the purchase thereof are being considered.

Hot Mobile operated in the cellular market as of 2001. In 2012 it began its UMTS operation. Hot Mobile is owned by Hot, which is owned by the French businessman Mr. Patrick Derhy. In 2015, its network sharing agreement with Partner was approved and the two companies began joint operation through a joint subsidiary.

Golan is owned by Electra, a public Israeli company that distributes and retails consumer products and is part of a large Israeli business group. Golan began to operate in 2012. For details of our network sharing and hosting agreements with Golan and Xfone, see "-Network and Infrastructure – Cellular Segment – Network sharing agreements" above.

Xfone is owned by the Israeli businessman Hezi Bezalel. For details of our network sharing and hosting agreements with Golan and Xfone, see "-Network and Infrastructure – Cellular Segment – Network sharing agreements" above.

Rami Levy is a subsidiary of a major Israeli discount supermarket chain. Azi is owned by Telzar, an ILD operator. Cellact is owned by Cellact Ltd., a content provider.

Competition may remain in its current heightened condition or somewhat increase due to the entry of Xfone into the market. Further, under the 4G tender terms, Xfone, Golan and Hot Mobile are eligible for up to a 50% discount on the license fees paid for the 4G frequencies, 10% for each 1% addition to their market share, obtained over a period of 5 years.

Handsets

In the handsets market, we compete with numerous vendors, chain stores and importers' stores. Regulatory decisions in recent years led to the entry of additional competitors into the market and significantly increased competition and decreased sales for us. See "Item 4. Information on The Company – Government Regulations – Cellular Segment – Tariff Supervision" for additional details. Competition in this market may increase further.

Fixed-line Segment

The only groups having their own nation-wide landline infrastructure in Israel are Bezeq and Hot. We are dependent on Bezeq and Hot's broadband services for the supply of our internet services. The growing demand for data capacity increased our dependency on Bezeq's wholesale services. In 2014, a third competitor – IBC - commenced deployment of its infrastructure on the IEC's fiber optic infrastructure in selected areas, and in 2016 and 2017, respectively, Partner and we began extending our existing independent fiber optic infrastructures into residential areas. Should our potential cooperation with Partner and our potential investment in IBC in relation to the deployment of a fiber-optic infrastructure be effected, this would improve our competitiveness in the fixed-line services market as this is likely to reduce our dependency on Bezeq and Hot and reduce our costs. Independent deployment of fiber-optic infrastructure, based on certain physical infrastructure of Bezeq, encountered and continues to encounter resistance and numerous attempts from Bezeq to prevent such deployment. For more details, see " – Networks and Infrastructure – Fixed-line Segment – Fixed-line Infrastructure " above.

A landline wholesale market was formally launched in Israel in 2015 but to date, only internet infrastructure (BSA) and to some extent physical infrastructure services are provided and only on Bezeq's infrastructure. See "-Government Regulations – Fixed-line Segment – Wholesale Landline Market" below. An effective wholesale landline market, specifically one including both Bezeq's and Hot's infrastructure and providing both telephony and infrastructure services, would enhance our ability to compete and extend our service offering. However, an annulment or substantial alleviation of corporate or structural separation and Bezeq's tariffs supervision, may have a material adverse effect on our competitive capabilities and results of operation, especially if effected before an effective wholesale market is in place. Further, the entry of new competitors to the fixed-line market, through the wholesale market, has increased competition in the fixed-line market and may trigger further escalation in the competition in other markets in which we operate.

Internet Infrastructure and Connectivity Business

The two main internet infrastructure providers for the private sector in Israel and offering internet infrastructure services to both ISPs and end-users are Bezeq and Hot. Bezeq is also providing internet infrastructure services to operators that do not own their own infrastructure under the landline wholesale market, who, in turn, provide this service to the end customer. IBC provides broadband services in selected areas through agreements entered into with some of the smaller ISPs. IBC's licenses allow the provision of broadband infrastructure services to other license holders as well as directly to large business customers. Bezeq, Hot, we and Partner provide transmission services to business customers over each operator's respective independent transmission network. Partner started offering internet infrastructure services over its independent fiber optic infrastructure to the private sector in 2017. We have recently started offering internet infrastructure services in residential areas in which we deployed our independent fiber optic infrastructure as a stand alone service or as part of our triple and quatro offerings.

As of September 30, 2017, internet infrastructure services were provided by Bezeq and Hot to approximately 1.12 million and 706,000 households in Israel, respectively, with an immaterial quantity by IBC. As of the first half of 2015, internet infrastructure services were provided by other operators, including us, through the landline wholesale market, using Bezeq's infrastructure. Based on Bezeq and Hot reports, at the end of September 2017, the internet infrastructure services household penetration rate was approximately 93%. We bundle this service with our internet connectivity service and also as part of our triple play offering. As of December 31, 2017, we had approximately 222,000 households subscribed to our end-to-end internet services.

Internet infrastructure service is not provided yet using Hot's infrastructure (maximum tariffs for Hot's wholesale internet infrastructure services - higher than those set for Bezeq's services - were published by the MOC on June 2017) and it is unclear when the service will be offered. Effective inclusion of Hot's infrastructure in the wholesale market may increase the amount of potential subscribers to our triple play and bundle offerings.

Internet connectivity access is currently provided by three major ISPs: us, Bezeq International, Partner, and some other smaller players including Hotnet (a subsidiary of Hot) and Xfone Communications Ltd. (Xfone's controlling shareholder).

The Israeli internet connectivity market is highly competitive and saturated. As of the date of this report, there are a few dozen ISPs in Israel, though most of them do not hold significant market shares. Competition among the various players concentrates mainly on pricing.

The offering of bundles of services and the aggressive campaigns of both Bezeq and Hot offering substantially higher bandwidth for lower tariffs to end-users, resulted in a substantial decrease in internet connectivity service prices and led to increased demand for greater bandwidth, which required us to increase the capacity we purchase from Bezeq and Hot. Further, the offering of bundles of internet infrastructure and connectivity using the wholesale market increased the competition in this field, resulted in loss of some of our internet connectivity customers. Bezeq's continued breach of its obligation to market our connectivity services when proposing an internet infrastructure and connectivity bundle, had also resulted in a substantial loss of connectivity business. If competition remains at current levels and the regulatory environment remains unchanged, this trend is expected to continue to have a material adverse effect on our results of operations.

Global internet connectivity is provided by three underwater cables. The main provider, which also provides us with global internet connectivity, is TI Sparkle, and two additional underwater cables are owned by each of Tamares Telecom and the Bezeq group.

Television services

Multichannel pay-TV services are dominated by Hot (the incumbent TV provider and monopoly in this field) and YES (a subsidiary of Bezeq) with approximately 797,000 and 597,000 households, respectively, as of September 30, 2017. The multichannel pay-TV market is also highly penetrated. We successfully entered this market in December 2014, using an hybrid OTT-DTT television service, with approximately 170,000 households subscribed to our Cellcom tv services as of December 31, 2017. In June 2017 Partner launched its OTT TV solution which includes Netflix's (American internet based VOD content provider) application integration (and offering for a limited period), and in August and October 2017, respectively, Hot and Yes each launched an OTT TV low cost brand solution – branded Hot Next and Sting, respectively (Hot's OTT TV solution is also to be marketed by Rami Levy). Also, Netflix and Amazon Prime, another American internet based VOD content provider, provide their services to viewers in Israel, as complementary service to the existing competitors' content.

Under the Israeli Antitrust Commissioner's 2014 instructions, aiming to facilitate the entry of new competitors to the TV market by reducing entry barriers, preconditions for the approval of any merger in the Bezeq group were published, including the requirements that Bezeq is to generally not bill ISPs for TV related internet infrastructure services and annul and not engage in any non-original production exclusivity arrangements.

ILD services

We are a major service provider in the Israeli ILD market. As of the date of this report, there are several ILD operators in the Israeli market. Our main competitors in this market are Bezeq (through its wholly-owned subsidiary Bezeq International) and Partner (through a wholly-owned subsidiary). Additional competitors include Xfone, Telzar International Communications Services Ltd., Rami Levy, Golan and Hot, through wholly-owned subsidiaries or affiliates. At the end of September 2017, our market share in the ILD market is estimated to be approximately 25%.

The Israeli ILD market is highly competitive, and the competition in the market is based mainly on the operator's ability to offer attractive pricing and to bundle this service with additional services such as cellular services.

In recent years the use of free of charge alternative technologies such as voice-over-IP has resulted in downsizing of the telephony market, especially the ILD services revenues. This trend is expected to continue in the future at a more moderate pace.

Landline telephony

The Israeli landline telephony market has been dominated for many years by Bezeq, the incumbent landline monopoly, which held as of December 31, 2016 (according to the Ministry of Communications report) approximately 2/3 of the landline telephony market (and an even larger market share in the business landline telephony sector). Hot, the incumbent TV monopoly, was the second entrant to this market. Other players include us, Partner's subsidiary and Bezeq International.

We offer landline telephony to selected business customers and landline telephony using VOB technology to private customers. We estimate that our current market share in the Israeli landline telephony market is not material. In case landline telephony is effectively included in the landline wholesale market, we may also offer landline home telephony services to private customers based on the wholesale market.

The landline wholesale market was to allow wholesale landline telephony service as of May 2015. As of the date of this report, no wholesale landline telephony services are provided. In June 2017 the Ministry of Communications allowed Bezeq not to offer wholesale landline services until July 2018 and to provide a resale telephony service (at substantially higher tariffs) as a temporary substitute, which the MOC may decide to turn into a permanent substitute. The Ministry of Communications held a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion. The resale service is not provided to date. We believe the resale alternative is not a substitute for wholesale landline services and will not result in competition in this field.

For details, see "– Government Regulation – Fixed-line Segment – Wholesale landline market".

Other fixed-line services

Transmission and landline data services are provided by Bezeq, Hot, Partner and us. These services are provided to business customers and to telecommunications operators. During 2017 the competition in these fields of operation intensified following HOT's and Partner's offerings, and the usage of bandwidth of transmission increased.

IOT services are provided by Bezeq, Pelephone and other software integration companies and we expect that additional participants will enter this field in the future. We offer a wide range of advanced IOT services and solutions, through cooperation with leading IOT technology and services vendors. The IOT market is characterized by intense competition and includes the offerings of communications providers which offer both connectivity solutions and end-to-end solutions and large software integration companies.

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 are the proprietor of over 100 domain names and approximately 100 trademarks and trademarks applications, the most important of which are the star design, "Cellcom", "Talkman", "Cellcom Volume," "Cellcom tv," "Netvision" and "013 Netvision". We are also the proprietor of a few registered patents.

Government Regulations

The following is a description of various regulatory matters that are material to our operations, including certain future legislative initiatives that are in the process of being enacted. There can be no certainty that the future legislation described here will be enacted or that it will not be subject to further change before its final enactment.

General

A significant part of our operations is regulated by the Israeli Communications Law, 1982, the regulations promulgated under the Communications Law and the provisions of our licenses, which were granted by the Ministry of Communications pursuant to the Communications Law. We are required by the Communications Law and the Wireless Telegraph Ordinance (New Version), 1972, to have a license in order to provide certain communications services in Israel and be allocated the spectrum to do so.

See also "Item 3. Key Information – D. Risk Factors – We operate in a heavily regulated industry, which can harm our results of operations. Regulation in Israel has materially adversely affected our results."

Cellular Segment

Our Cellular license

We provide our cellular services under a non-exclusive general license granted to us by the Ministry of Communications in June 1994, which requires us to provide cellular services in the State of Israel to anyone wishing to subscribe. The license expires on January 31, 2022, but may be extended by the Ministry of Communications for successive periods of six years, provided that we have complied with the license and applicable law, have continuously invested in the improvement of our service and network and have demonstrated the ability to continue to do so in the future. The main provisions of the license are as follows:

the license may be modified, cancelled, conditioned or restricted by the Ministry of Communications in certain instances, including: if required to ensure the level of services we provide; if a breach of a material term of the license occurs; if any of our managers or directors is convicted of a crime of moral turpitude and continues to serve; or if we and our 10% or greater shareholders fail to maintain combined shareholders' equity of at least \$200 million; it is prohibited for any of our office holders or anyone holding more than 5% of our means of control, to hold, directly or indirectly, more than 5% of the means of control in Bezeq or another cellular operator in Israel, or to serve as an office holder of one of our competitors, subject to certain exceptions requiring the prior approval of the Ministry of Communications;

the direct and indirect holdings of DIC and Koor (or a transferee or transferees approved by the Ministry of Communications), in the capacity as our founding shareholders, may not fall below 26% of our means of control (with "means of control" defined for these purposes as voting rights, the right to appoint a director or general manager, the right to participate in distributions, or the right to participate in distributions upon liquidation); the direct and indirect holdings of our founding shareholders who are Israeli citizens and residents may not fall below 5% of our means of control; at least 10% of our directors must be appointed by Israeli citizens and residents from among our founding shareholders and the majority of our directors must be Israeli citizens and residents;

we or our office holders or a 5% or greater holder of any of our means of control may not commit an act or omission that adversely affects or limits competition in the cellular communications market;

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

we are subject to the guidelines of Israel's General Security Services, which may include requirements that certain office holders and holders of certain other positions be Israeli citizens and residents with security clearance and the Minister of Communications is entitled under our license to appoint a state employee with security clearance to act as an observer in all meetings of our Board of Directors and its committees. 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;

we are required to have agreements with a manufacturer of cellular network equipment for the duration of its intended operating period, which must include, among other things, a know-how agreement and an agreement guaranteeing the supply of spare parts for our network equipment for a period of at least seven years; we are required to interconnect our network to other public telecommunications networks in Israel, on equal terms and without discrimination and to provide national roaming services to Golan and Hot Mobile;

we generally may not give preference in providing infrastructure services to a license holder that is an affiliated company over other license holders;

there are certain general types of payments that we may collect from our subscribers, certain procedures and requirements for charging and collecting payments, general mechanisms for setting and raising tariffs, including the basic airtime charging units and prior notifications we must provide the MOC and our customers prior to increasing tariffs and the Ministry of Communications is authorized to intervene in setting tariffs in certain instances;

we must maintain a minimum standard of customer service, including, among other things, operation of call centers, maintenance of a certain service level (both coverage and performance) of our network, protection of the privacy of subscribers; and certain limitations and requirements regarding the process and documentation of our marketing and sale interaction with our customers;

we may not transfer, pledge or encumber the license or any assets used for implementing the license without the prior approval of the Ministry of Communications;

we are required to obtain insurance coverage for our cellular activities. In addition, the license imposes statutory liability for any loss or damage caused to a third party as a result of establishing, sustaining, maintaining or operating our cellular network. We have further undertaken to indemnify the State of Israel for any monetary obligation imposed on the State of Israel in the event of such loss or damage. For the purpose of guaranteeing our obligations under the license, we have deposited a bank guarantee in the amount of NIS80 million with the Ministry of Communications, which may be forfeited in the event that we violate the terms of our license;

we must maintain and follow additional requirements as to: business continuity plan and a disaster recovery plan and network sharing implementation, under which we may be accountable for violations attributed to the other sharing partners; and

we are required to provide the Ministry of Communications information and reports upon its request, as well as detailed annual reports regarding various aspects of our operations.

In the event that we violate the terms of our license, we may be subject to substantial penalties, including monetary sanctions under the Communications Law, the sum of which shall be calculated as a percentage of our income and based on the gravity of the breach. The maximum amount per violation that may be imposed is approximately NIS 1.6 million plus 0.225% of our annual revenue for the preceding year, subject to criteria published by the Ministry of Communications. In recent years the MOC has substantially increased its supervision activities and imposed monetary sanctions, including on us (in immaterial amounts). Substantial sanctions will harm our results of operations. In the event that we materially violate the terms of our licenses, the Ministry of Communications has the authority to revoke them.

In January 2018, the Ministry of Communications published a hearing which aims, among other things, to set measurable parameters for telecommunications operators' call centers' response times. We estimate that the proposed changes, if adopted as proposed, would have a material adverse effect on our results of operations.

Services in Judea and Samaria

The Israeli Civil Administration in Judea and Samaria granted us a non-exclusive license for the provision of cellular services to the Israeli-populated areas in Judea and Samaria. This license is effective until 2022. The provisions of the cellular license described above, including as to its extension, generally apply to this license.

Tariff supervision

Interconnect tariffs among landline operators, international call operators and cellular operators are subject to regulation.

We are prohibited from making any linkage between a cellular services transaction and a handset purchase transaction, including by way of offering airtime rebates or refunds for handsets, and may not charge our customers for stopping to use our services or deny them any of the benefits to which they would have been entitled had they not stopped using our services.

We are prohibited from collecting early termination fees in plans with a commitment to a predefined period, or early termination fees (excluding from customers with more than a certain amount of cellular lines or over a certain amount of monthly invoice for bundles or other services) as well as the handset's remaining installments in one payment pursuant to early termination.

In case of a disagreement as to the terms of a hosting service (including the consideration), whether for national roaming of a new MNO (currently Golan, Hot Mobile and Xfone) or hosting of an MVNO, the regulators may intervene in the terms of the agreement, including by setting the price of the service. Unfavorable terms and consideration for the hosting service, may result in material adverse effect on our results of operations. For additional details, see "– Mobile Virtual Network Operators" below.

We are obligated to pay our customers predetermined damages for each discrepancy from the customer's pricing plan remedied after the customer complained. The damages are in an insignificant amount, but may aggregate to substantial amounts if paid to numerous customers on multiple occasions.

The Minister of Communications is authorized to give instructions and to set interconnect tariffs and usage of another operator's network rates and supervised services prices, based not only on cost plus reasonable profit, but also on the basis of comparison to other licensees, comparable services or such services or interconnect tariffs in other countries. In addition, the Minister of Communications was authorized to give instructions in relation to structural separation for the provision of different services, including between services provided to a licensee and services provided to a subscriber.

Mobile virtual network operators

A mobile virtual network operator, or MVNO, is a cellular operator that does not own its own spectrum and usually does not have its own radio network infrastructure. Instead, MVNOs have business arrangements with existing cellular operators to use their infrastructure and network for the MVNO's own customers. See also "– Tariff Supervision" above.

To date, the Ministry of Communications has granted approximately 20 MVNO or unified licenses (which also allow the provision of cellular services as MVNO). Three MVNOs are currently active.

Network Sharing

The Ministry of Communications set certain requirements for the approval of network sharing, including the following principles: (1) sharing of passive elements of cell sites and active sharing of antennas among all cellular operators are encouraged; (2) active sharing of radio networks using shared equipment and frequencies will be allowed only between an operator with a partial 3G network deployment and an operator with a full 3G network deployment, whereas such sharing will not be allowed for two operators with full 3G network deployment; (3) sharing of transmission from cell sites among operators sharing frequencies is generally allowed; (4) approval of active sharing of radio networks using shared equipment and frequencies shall be for a limited period, only if there are at least three independent cellular networks in Israel, and is conditioned upon certain conditions, including: (i) the obligation to allow other operators to join on terms similar to the terms granted to the sharing operator with the smallest market share; (ii) the obligation to host a MVNO without the other sharing operators' consent; (iii) the shared radio network must be operated through a joint entity held equally by the sharing operators, which entity will be required to obtain a license from the Ministry of Communications and will use the frequencies allocated to sharing operators; and (iv) the radio elements of the shared network will be held in equal parts by the sharing operators, and each of the sharing operators will have the right to use other sharing operators' passive infrastructure including following termination of the agreement.

For details regarding our network Sharing Agreements, see "– Network and Infrastructure – Cellular Segment – Network sharing agreements".

Permits for cell site construction

General

In order to provide and improve network coverage to our subscribers, we depend on cell sites located throughout Israel. The regulation of cell site construction and operation are primarily set forth in the Israeli National Zoning Plan 36 for Communications, or the Plan, and in the Communications Law.

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

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

The Plan includes guidelines for constructing cell sites in order to provide cellular broadcasting and reception communications coverage throughout Israel, while preventing radiation hazards and minimizing damage to the environment and landscape and sets forth the considerations that the planning and building authorities should take into account when issuing building permits for cell sites. The Plan also determines instances in which the public must be informed of requests for building permits prior to their issuance, so that they may submit objections to the construction of a site. Many local authorities have argued that a building permit issued in reliance on the Plan requires the payment of amelioration charge. Following contradicting decisions by appeal and national zoning committees, such claim awaits the Supreme Court's decision. Should the matter be decided against us, the costs of constructing a site will substantially increase.

If the Plan is amended so as to include additional restrictions and requirements on the construction and operation of cell sites, this will harm our ability to construct new cell sites, make the process of obtaining building permits for the construction and operation of cell sites more cumbersome and costly, and could adversely affect our existing network and delay the future deployment of our network.

Site licensing

We have experienced difficulties in obtaining some of the permits and consents required for the construction of cell sites, especially from local planning and building authorities. The construction of a cell site without a building permit (or applicable exemption) constitutes a violation of the Planning and Building Law, which is criminal in nature. The Planning and Building Law contains enforcement provisions to ensure the removal of unlawful sites. As of December 31, 2017, we were subject to five criminal and administrative legal proceedings alleging that some of our cell sites were built and have been used without the relevant permits or not in accordance with the permits. As of the same date, a small portion of our cell sites operated without building permits or applicable exemptions. Although we are continually seeking to obtain building permits for these sites, we may not be able to obtain them and in several instances we may be required to relocate these sites to alternative locations or to demolish them without any suitable alternative. In addition, we may be operating a significant number of our cell sites, in a manner which is not fully compatible with the building permits issued for them, although they are covered by permits from the Ministry of Environmental Protection in respect of their radiation level. In some cases we will be required to relocate these cell sites to alternative locations, to reduce capacity coverage or to demolish them without any suitable alternative.

Based on advice received from our legal advisors and consistent with most court rulings on the matter and the Israeli Attorney General opinion on the matter that the exemption from obtaining a building permit applies to cellular radio access devices, we have not requested building permits under the Planning and Building Law for rooftop radio access devices. Petitions against the Attorney General opinion and our and other operators' appeals against certain contrary decisions of the District Court against us and other operators, are awaiting the Supreme court's decision. In the course of such proceedings, the Attorney General concluded that the application of the exemption does not balance properly the different interests involved and therefore cannot continue forward. At the Attorney General's request, the Israeli Supreme Court issued in 2010 an interim order which prevents cellular operators from constructing further radio access devices in cellular networks in reliance on the exemption until the enactment of regulations setting conditions for the application of such an exemption or other decision by the court, other than the replacement of existing radio access devices under certain conditions. In 2017 a draft regulations setting procedures for making changes in existing radio access devices including replacement thereof and for the construction of a limited number of new radio access devices exempt from building permits, but requiring certain municipal procedures, was deliberated in the Israeli Parliament's Economic Committee. We cannot estimate what the final version of the regulations will be and whether they would alleviate or further burden the current procedures for making changes and constructing new radio access devices. If the regulations are enacted and final regulations include significant limitations on the ability to make changes to and construct radio access devices based on such exemption, it may adversely affect our existing networks and our networks' build-out.

Other legal proceedings relating to the exemption, including as to its application to rooftops located at the same level as a place of residence or otherwise regularly frequented, were decided against our position, and others, including as to the requirement to obtain an extraordinary usage permit in certain circumstances, are still under consideration. Other claims asserting that those cell sites and other facilities do not meet other legal requirements, continue.

An annulment of, or inability to rely on, or substantial limitation of, the exemption, the dismantling of radio access devices and cell sites due to reasons out of our control and the objection of some local planning and building authorities to grant due permits where required, could have a negative impact on our ability to obtain environmental permits for these sites, could negatively affect the extent, quality, capacity and coverage of our network (specifically in urban areas), and our ability to continue to market our products and services effectively and may have a material adverse effect on our results of operations and financial condition.

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

Several local planning and building authorities argue that Israeli cellular operators may not receive building permits in reliance on the current Plan, for cell sites operating in frequencies not specifically detailed in the frequencies charts attached to the Plan, although most of our and other operators' cell sites (including all 4G cell sites) operate in frequencies not specifically detailed in the Plan. In a number of cases, these authorities have refused to issue a building permit for such new cell sites, arguing that building permits for such cell sites should be sought through other processes (which are longer and cumbersome), such as an application for an extraordinary usage or under existing local specific zoning plans. Some of the frequencies to which we may be required to transfer (see " – Networks and Infrastructure – Cellular Segment – Spectrum Allocation") are not specifically detailed in the Plan. We believe that the Plan applies to all cell sites, whether or not they operate in specific frequencies.

If this approach escalates, it would have a negative impact on our ability to deploy additional cell sites, which could negatively affect the extent, quality and capacity of our network coverage and our ability to continue to market our products and services effectively.

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

In addition, we construct and operate microwave sites as part of our transmission network. The majority of microwave sites are exempted from receiving permits from the Ministry of Environmental Protection (due to their low output) or require a general permit in respect of their radiation level. Based on advice received from our legal advisors, we have not requested building permits for such microwave facilities on rooftops. If the courts determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability to obtain environmental permits for these sites and to deploy additional microwave sites and could hinder the extent, quality and capacity of our transmission network coverage and our ability to continue to market our landline services to our business customers (based on our own infrastructure) effectively.

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

Indemnification obligations

Under the Planning and Building Law, local building and planning committees require letters of indemnification from cellular operators indemnifying the committees for possible depreciation claims against the committees, as a condition for issuing a building permit for a cell site. The limitation period within which depreciation claims may be brought under the Planning and Building Law is the later of one year from receiving a building permit under the Plan and six months from the construction of a cell site. The Minister of Interior Affairs retains the general authority to extend such period further.

To date we have provided approximately 410 indemnification letters in order to receive building permits. 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. We expect that we will be required to continue to provide indemnification letters as the process of deploying our cell sites continues. As a result of the requirement to provide indemnification letters, we may decide to construct new cell sites in alternative, less suitable locations, to reduce capacity coverage or not to construct them at all, which could impair the quality of our service in the affected areas.

Environmental radiation issues

Under the Non-Ionizing Radiation Law, it is prohibited to construct and operate cell sites without construction and operating permits from the Ministry of Environmental Protection. Receiving a construction permit is a precondition to receiving a building permit from the planning and building committee and receiving a building permit or an exemption therefrom is a precondition for the receipt of an operating permit. For both permits, the applicant must present the means taken (including technological means) to limit exposure levels from each cell site or facility.

The validity of a construction permit is for a period not exceeding three months, unless otherwise extended by the Commissioner, and the validity of an operating permit is for a period of five years, subject to the submission of annual reports regarding radiation surveys of our cell sites and other facilities by third parties that were authorized to conduct such surveys by the Commissioner. These permits contain various conditions that regulate the construction and/or operating of cell sites, as the case may be. Our cell sites routinely receive both construction and operating permits from the Commissioner within the applicable time frames. In addition, Cellular operators are required to provide the Commissioner with online, ongoing data regarding the radiation level on each of their cell sites and other facilities. We provide the Commissioner with the requested data. See "– Site licensing" above for additional details in regards to obtaining a building permit or relying on an exemption.

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

Positions of the Ministries of Communications, Health and Environmental Protection published in 2012 in relation to the various aspects of the provision of 4G services in Israel, include proposed limitations on usage and deployment in order to reduce exposure to non-ionizing radiation. Such limitations were not included in later documents issued by the MOC, allowing the provision of 4G services and awarding 4G frequencies to the cellular operators.

Any amendment to the Non-Ionizing Radiation Law and the Planning and Building Law that will prohibit or substantially limit the grant of permits under such laws, will, among other things, limit our ability to construct new sites (and if applied to existing cell sites, it will also limit our ability to renew operating permits for many of our existing sites), will adversely affect our existing networks and networks build out, specifically in urban areas, and could adversely affect our results of operations.

Handsets

The Israeli consumer protection regulations regulate the maximum permitted level of non-ionizing radiation from handsets, according to the European and the American standards. They also require cellular operators to attach an information leaflet to each handset package that includes explanations regarding non-ionizing radiation, the maximum permitted level of non-ionizing radiation and the level of radiation of that specific model of equipment. The Radiation Regulations further require that such information also be displayed at points-of-sale, service centers and on the Internet sites of cellular operators.

SAR levels are a measurement of non-ionizing radiation that is emitted by a hand-held cellular handset at its specific rate of absorption by living tissue. SAR tests are performed by the manufacturers on prototypes of each model of handset, not for each and every item. We include the information published by the manufacturer regarding SAR levels as we do not perform independent SAR tests for equipment and rely for this purpose on information provided by the manufacturers. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual SAR level of each specific item and throughout its lifecycle, including in the case of equipment repair. We inform our customers that there may be changes in the SAR levels in the event of equipment repair.

We obtain certain approvals from the Ministry of Communications and the Office of Standards in connection with the importation of handsets.

We are required to provide a warranty during the first year and maintain spare parts for certain end user equipment purchased from us, for certain malfunctions for certain periods. We are also required to annul equipment sales in certain circumstances, at the request of the customer.

Fixed-line Segment

Our Fixed-line Licenses

Our Unified license

The establishment and operation of fixed-line communications networks, and allocation of spectrum if relevant, requires a license.

We provide landline telephone, ILD, internet connectivity and infrastructure services as well as a "network end point" services, under a non-exclusive unified license granted to our wholly owned subsidiary - Cellcom Fixed Line Communications Limited Partnership - in 2015 licenses. The license expires in 2026 but may be extended by the Ministry of Communications for successive periods of 10 years. We have deposited a bank guarantee in the amount of NIS 2 million with the Ministry of Communications upon receiving the license. The provisions of our cellular license, including as to its extension, generally apply to the unified license, subject to certain modifications, including a 20% minimum Israeli holding requirement which can be waived by the Minister of Communications when the unified license operator is controlled by a general license holder (as was done in our case).

Services in Judea and Samaria

The Israeli Civil Administration in Judea and Samaria granted us a non-exclusive unified license for the provision of internet connectivity and infrastructure, ILD, landline and 'network end point' services to the Israeli-populated areas in Judea and Samaria. This license is effective until 2026. The provisions of the cellular license described above, including as to its extension, generally apply to this license, subject to certain modifications.

Data and transmission services

We hold a non-exclusive special license for the provision of local data communications services and high-speed transmission services only to Cellcom Fixed Line Communications Limited Partnership, effective until March 2018. We expect that we will be able to renew this license without undue burden. Data and transmission services are being provided to our customers by Cellcom Fixed Line Communications Limited Partnership. The provisions of our cellular and unified licenses described above, including as to their extension, generally apply to this license, subject to certain modifications.

Fiber-optic network

The Communication Law provides operators certain privileges in the deployment of fiber-optic cables and exempts them (including auxiliary facilities) from the requirement to obtain building permits. The deployment in a public domain is subject to advanced notification to the occupier of the land and coordination with other infrastructure owners, and on private land, the consent of the owner of the land.

In addition, operators that do not own their own nation-wide landline infrastructure may use certain physical infrastructure of Bezeq and Hot, based on the wholesale landline market, and certain wholesale obligations are applied on all landline operators, including us. See "- Wholesale landline market" below.

See also "- Cellular Segment – Permits for cell site construction - Site Licensing" above for a discussion regarding microwave sites forming a part of our transmission network.

Tariff Supervision

The Communications Law prevents us from collecting early termination fees in the ILD and the landline telephony markets (excluding from customers with over a certain amount of monthly invoice for bundles or other services) since 2011.

We may not charge our customers for stopping to use our services or deny them any of the benefits to which they would have been entitled had they not stopped using our services.

Wholesale landline market

In 2012, the Minister of Communications published a policy document regarding landline wholesale services, which mainly provided for: (1) the creation of an effective wholesale telecommunications access market in Israel, as Bezeq and Hot will allow other operators that do not own an infrastructure, to use their infrastructure in order to provide services to end users; (2) the gradual annulment of the structural separation in the Bezeq and Hot groups and its replacement with an accounting separation and change of the supervision on Bezeq retail tariffs to maximum tariffs rather than the current setting of fixed tariffs, generally depending on the development of a wholesale market and the state of competition in the market, and with relation to television broadcasting services, if there is a reasonable possibility of providing a basic package of television services through the internet by providers without a national landline infrastructure.

In 2014 and 2015 the Minister of Communications amended Bezeq's and Hot's licenses so as to include certain wholesale landline services, such as internet infrastructure services and wholesale landline telephony services (to be provided within 3-6 months from the date of that decision) and use of certain of their physical infrastructure by operators who do not own such infrastructure (as of August 2015), as well as promulgated regulations setting the maximum tariffs of the wholesale landline services to be provided by Bezeq.

In 2015, the wholesale landline market was formally launched in Israel in regards to internet infrastructure services and use of certain physical infrastructure by operators who do not own such infrastructure.

Although the wholesale market was formally applicable to Hot's infrastructure as well, Hot's infrastructure has been effectively excluded from the wholesale market, initially as the maximum tariffs for Hot's wholesale infrastructure service were not published by the MOC until June 2017 (and are higher than those set for Bezeq's service) and thereafter, due to disagreements with Hot as to the implementation of the service, which were recently resolved by the MOC. To the best of our knowledge, as of the date of this report, there were no wholesale services supplied over Hot's infrastructure. The Ministry of Communications previously announced it will not interfere with the tariffs Hot has set for its wholesale telephony service. Effective inclusion of Hot's infrastructure in the wholesale market may increase the potential subscribers to our triple play and bundle offerings.

In June 2017, the Ministry of Communications published regulations setting Bezeq's resale telephony service to be provided by Bezeq as of July 2017, as a temporary 14 month alternative for wholesale landline telephony service. In addition, the Ministry of Communications resolved that Bezeq's obligation to offer wholesale telephony service will be postponed until the lapse of said resale telephony service period. The resolution further notes that the Ministry of Communications will consider the resale telephony service as a permanent replacement of the telephony wholesale service. The tariffs set for the resale telephony service are substantially higher than those set for Bezeq's telephony wholesale service. The Ministry of Communications is holding a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion. We believe that a resale telephony service is not a viable alternative and that its adoption will harm the competition in the landline market and have therefore objected to its adoption.

A hearing published by the MOC in 2014, which was further elaborated in 2017, proposing a method of inspecting whether Bezeq and Hot reduce their retail tariffs and thereby reduce the difference between the wholesale and retail tariffs ("margin squeeze") for certain landline services, aiming at reducing the profit of operators who do not own landline infrastructure and preventing their operation in the market, has not been concluded yet by the MOC.

An amendment to the Communications Law applies certain wholesale obligations on all landline operators, including us, and requiring all landline operators to grant all other landline operators access to their passive infrastructure (except IBC's passive infrastructure), the terms of which (with the exclusion of Bezeq and Hot, whose terms are set by the regulator) will be negotiated by the parties. For details of the Minister of Communications' authority to give instructions and set usage of another operator's network rates, see "Government Regulation – Cellular Segment - Tariff supervision" above.

OTT TV

Television services over the Internet are currently not subject to specific regulation in Israel.

In June 2016, a committee for the regulation of broadcasting nominated by the Ministry of Communications, published its final recommendations, including: (1) classification of the audio visual providers in the market (defined as a provider that mainly directs its content to the Israeli public through any electronic means (technological neutrality)) into three categories and determination of the regulation applied to each class as follows: (i) a "small audio visual provider" (i.e. holds more than 10% revenues market share) shall be subject to narrow regulation involving a mandatory license that shall include certain limitations, such as, in relation to content, cross ownership and a choice of financing between subscription fees or advertisements; (ii) a "small and stable audio visual provider" (i.e. holds more than 10% revenues market share for 3 consecutive years) shall be subject to the said narrow regulation in addition to a wide regulation which shall include mandatory investments in original Israeli content financing; (iii) a "material provider" (i.e. holds more than 20% revenues market share) shall be subject to the said narrow and wide regulation and (iv) an audio visual provider who holds less than 10% revenues market share shall be allowed to adopt a self-regulation; (2) setting a "must sell" obligation in regards to certain sport channels and sport leagues and Israeli original content productions (the latter after 3 years from initial broadcasting) to audio visual providers which hold a license and are subject to at least the narrow regulation to purchase; (3) changes to the basic narrow package HOT and YES must offer; and (4) regulation of advertising and commercial content.

In March 2017, the Ministry of Communications adopted most of the above recommendations. The implementation of such or other recommendations is subject to the adoption thereof by legislation. If the legislation adopted requires us to make additional investments or impose unfavorable regulation on our OTT TV service, or apply such regulation to us and not to other OTT TV providers, or usage of the DTT infrastructure, it may adversely affect our OTT TV business.

In December 2016, the Israeli Arrangements Law for 2017-2018 amended the applicable law's provisions regarding the operation of the DTT infrastructure (currently operated by a statutory television authority), requiring the state to hold a tender for the operation of the DTT infrastructure, in which Bezeq, Hot and the existing commercial channels will not be permitted to participate, and setting a mandatory internet based broadcasting of DTT channels in the future.

As of November 2017, the regulator allowed three TV commercial channels to broadcast their content in high definition over the internet and to Hot and Yes but not over the DTT broadcasting system. As a result, our TV customers and other DTT customers in Israel cannot obtain these three specific channels in HD (but rather in standard definition). We believe this decision is discriminatory and unreasonable and have filed a petition against this decision with Israel's High Court of Justice.

See also "– Competition – Fixed-line Segment – Television services" above.

Securities administrative enforcement

Under the Israeli Securities Law, certain violations of certain securities and securities-related laws supervised by the Israeli Securities Authority, or ISA, may be enforced through administrative measures. The ISA may impose various civil enforcement measures, including financial sanctions, payment to the injured party, prohibition of the violator from serving as an officer or a director for a specified period of time, annulment or suspension of licenses, approvals and permits granted under such laws and agreed settlement mechanism as an alternative to a criminal or administrative proceeding. In case of a violation by a corporation, vicarious responsibility could be attributed to the chief executive officer in some cases, unless certain conditions have been met, including the adoption and implementation of procedures for the prevention of the violation. We adopted such procedures for the prevention of violations. In recent years, the Israeli Securities Law Administrative Enforcement Committee, significant monetary sanctions, ranging up to several million NIS in individual cases, have been imposed on several publicly traded companies and their affiliates for breach of the provisions of the Israeli Securities Law.

Contributing to the Community and Protecting the Environment

We and our employees have been contributing to the community since our inception. We consider contribution to the community in Israel an important component of our business vision and believe we have a responsibility toward the Israeli community, as we acknowledge that business leadership goes hand in hand with social leadership.

During 2017, 20% of our employees participated in volunteering activities in the community. Since 2016, we partnered with an association supporting ALS patients and family members in various voluntary activities, including our employees' participation in a fundraising race for ALS patients and donation in said race, the donation of a service workshop to the ALS association social workers and employees regarding the importance of service and provision of excellent service and familiarizing ALS patients with mitigating advanced technologies.

We are aware of the importance of environmental protection. We seek to operate responsibly to continuously reduce negative impacts on the environment and the landscape, aiming at a better environmental performance than required by local law. We dedicate personnel, funds and technologies to reduce our ecological footprint, through activities such as efficient deployment of infrastructure subject to the applicable standards, recycling of electronic components and packages, reduction of paper usage by managed printing, reduction of pollutants' emissions and energy usage, collection of used batteries, provision of a monthly bill and other correspondence to our subscribers via e-mail or SMS, transfer to usage of environment friendly raw materials and separation between different types of waste in our repair services and purchasing of electricity produced by a private natural gas based power station.

C. ORGANIZATIONAL STRUCTURE

Our largest shareholder, Koor, is a wholly-owned subsidiary of DIC. DIC is a public Israeli company traded on the Tel Aviv Stock Exchange, one of Israel's largest business groups. See the footnote to the table under "Item 7.A – Major Shareholders" for information on the holdings in DIC.

We and Cellcom Fixed Line Communications Limited Partnership (into which the operations of 013 Netvision were transferred in 2017 (See "- Government Regulations - Fixed-line Segment - Our Fixed-line Licenses - Our Unified licenses"), are incorporated in Israel. As of such transfer Cellcom Fixed Line Communications Limited Partnership is our only significant subsidiary.

D. PROPERTY, PLANT AND EQUIPMENT

Headquarters

In 2003, we entered into an 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 is in effect until December, 2022 and is renewable for two additional periods of five years each, upon our notice. As of 2015, we started subleasing part of the property, which currently amounts to a quarter of our headquarters to several sub-lessees for a period of up to five years, following the reduction in headcount in our headquarters. The sub-lessees have options to renew the lease for additional periods.

Netanya Property

In 2010, we entered into a lease agreement for our techno-logistic center, in Netanya, Israel. The leased property covers approximately 11,000 square meters. The lease is for a term of ten years from August 2011 and is renewable for an additional period of 5 years, at our option. In case we do not exercise the option we shall be required to pay approximately NIS 11 million. As of 2015, we started subleasing part of the property, which currently amounts to approximately 6,100 square meters of the leased property, for a period of five to six years. The sub-lessees have an option to renew the leases for an additional period subject to certain conditions.

Haifa and Rosh-Ha'ayin Properties

We lease a property in Haifa and a property in Rosh-Ha'ayin. We use these properties for offices, for call centers, for network servers and for equipment storage. The Haifa lease covers approximately 8,900 square meters, is in effect until December 2019, may be terminated by us in December 2018 subject to prior notice, and is renewable for three additional periods of two years each, upon our notice. The Rosh-Ha'ayin lease covers approximately 3,300 square meters, is in effect until December 2019 and is renewable for four additional periods of two years each, upon our notice. We sublease part of the property in Rosh-Ha'ayin to our wholly-owned dealer and another subsidiary.

Electricity

In December 2010, we entered into an agreement with Ramat Negev Energy Ltd., which constructed a private power plant fueled by natural gas in Israel, and we commenced purchasing a portion of our electricity from it in 2014. Under the agreement, we committed to purchase electricity for the earlier of a period of 15 years from commencement of operations of the power plant or until January 2028, subject to our right to terminate the agreement after six years from the commencement of operations of the power plant under certain conditions.

Service Centers, Points of Sale and Cell Sites

As of December 31, 2017, we leased 78 service centers, points of sale and other facilities (including those operated by our wholly-owned dealer), which are used for sales and customer service. Such lease agreements are generally for periods of two to three years, with extension options that vary by location.

In addition, we lease from various parties, including the Israeli Land Authority, or ILA, municipalities and private entities sites for the establishment, maintenance and operation of cell sites for our cellular network. The duration of these lease agreements are generally for two to five years, with an option to extend the lease for successive similar periods and exit windows that enable us to terminate the agreement prior to its scheduled expiration. In some of the agreements, the lessor is entitled to terminate the agreement at any time without cause, subject to prior notice. Based on our past experience, we encounter difficulties in extending the term of approximately 5% of the lease agreements for cell sites, which at times results in our having to pay higher rent in order to remain in the same locations or to find alternative sites. This may aggravate given our network sharing agreements.

In addition, we lease a number of points of presence in Israel that are used for equipment and servers storage and other communications equipment for the provision of landline services, and storage space for our servers and equipment in New York City, London and Frankfurt.

Authorization Agreement with Land Regulatory Authorities

In June 2013, we renewed an authorization agreement with the ILA that authorizes us to use lands managed by the ILA for the establishment and operation of cell sites. The authorization agreement is effective until 2019. The authorization agreement provides that subject to the receipt of approval from the ILA, we will be entitled to establish and operate cell sites on the lands leased to third parties throughout the agreement's term. We undertook to vacate at the end of the agreement's term all facilities installed in the authorized area unless the authorization period is extended. Under the authorization agreement, the ILA is entitled to revoke authorizations granted to us in certain circumstances.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following operating and financial review and prospects should be read in conjunction with "Item 3. Key Information – A. Selected Financial Data" and our consolidated financial statements and accompanying notes appearing elsewhere in this annual report. Our financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, which differ in certain respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

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

A. OPERATING RESULTS

Overview

General

We are the largest provider of cellular communications services in Israel with approximately 2.817 million cellular subscribers as of December 31, 2017, with an estimated market share of 26.3%, as well as a major internet connectivity and ILD services supplier. In 2014 and 2015 we entered the TV and internet infrastructure markets (the latter through the landline wholesale market), respectively.

We earn revenues and generate our primary sources of cash by offering a broad range of communications services, including cellular, Internet services (connectivity and infrastructure), tv services and fixed-line telephony services (inland and international).

As of 2016, as a result of business and regulatory changes, as well as the Group's entry into new fields of operation in the fixed-line market, the Group's management attention in general and its chief operating decision maker's attention in particular, have shifted to focus on two main fields of operations, "Cellular" and "Fixed-line." Accordingly we adjusted our operating segments for reporting prior periods as of January 1, 2014, on a retroactive basis.

Our cellular segment's services include basic cellular communications services and data transfer, download and upload, as well as text and multimedia messaging services and advanced cellular content services, which we provide through our 2G and 3G networks, covering substantially all of the populated territory of Israel, and our 4G network covering most of the population of Israel. We also provide international roaming services to our subscribers in 180 countries as of December 31, 2017 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 on most handsets we offer. A significant portion of our revenues is derived from our network sharing agreement with Golan.

Our fixed-line segment's services include landline telephony services, internet infrastructure (since May 2015, through the landline wholesale market) and connectivity services (ISP), television services (since December 2014) (OTT TV), transmission services, international calling services (ILD) and end user fixed-line equipment.

We sell our various services on a stand-alone basis or bundled with certain other services offered by us, including a triple play bundle of end-to-end internet service, landline telephony and TV services and a quatro bundle which includes the triple offering plus cellular services.

Our management evaluates our performance through focusing on our key performance indicators, which include among others: cellular subscribers and average revenue per user of cellular or ARPU and internet and TV subscribers (households), EBITDA (as defined in "Results of Operations"), EBITDA as percentage of revenues, operating income, net income, cash flow from operating activities, Free Cash Flow*, number of cellular, internet and OTT TV subscribers or households (both standalone and as a part of a bundle), subscriber churn rate, handset sales and profitability and Net Promoter Score, or NPS, (indicating our subscribers' satisfaction with our services). 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.

*Free Cash Flow is a non-IFRS measure. Free Cash Flow is defined as (a) the net cash provided by operating activities minus (b) the net cash used in investing activities, excluding (i) short-term investments in tradable debentures and deposits and (ii) proceeds from sales of such debentures (including interest received in relation to such debentures) and deposits.

We intend to drive revenue primarily by: maximizing the benefits of our position as a leading Israeli telecommunications group; offering our customers full and comprehensive mobile and wireline solutions and bundles of services (including triple/quatro play) and enhancing our competitive capabilities; retaining our existing subscribers and attracting new subscribers; offering new services that are synergistic to our core businesses like IOT and cyber services and growing wireline service revenues. Entering a new and penetrated market may require substantial investment and additional expenses. We intend to continue our efforts to optimize our costs by implementing further efficiency measures and reducing our expenses, including through the network sharing and hosting agreements we entered into with Golan and Xfone and by expanding our independent deployment of fiber-optic infrastructure into residential areas and advancing potential cooperation with Partner and investment in IBC in connection therewith, as they are expected to allow us to reduce our current landline wholesale payments to Bezeq, and adjusting our operations to the changing market conditions. We cannot guarantee the success of these measures. For details of our Sharing Agreements, see "Item 4. Information on the Company – B. Business Overview – Network and Infrastructure – Cellular Segment – Network sharing agreements". For details of our fiber-optic network expansion activity see "Item 4. Information on the Company – B. Business Overview – Networks and Infrastructure – Fixed-line Segment – Fixed-line infrastructure."

In February 2015, we entered into a collective employment agreement with the Company's employees' representatives and the Histadrut for a term of three years (2015-2017). We are negotiating the renewal of the agreement. In March 2018, the Histadrut announced a labor dispute at the Company. See also "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – The unionizing of our employees may impede necessary organizational and personnel changes, result in increased costs or disruption to our operation."

The Israeli telecommunications market is currently dominated by four communications groups: Bezeq, Hot, Partner- and Cellcom, with the first two having a full landline infrastructure.

The communications market is primarily regulated by the Ministry of Communications. Regulatory changes have had material adverse effects on our results of operations in recent years, including by facilitating the entry of additional competitors into the cellular market which dramatically increased competition. Recent consumer related amendments to our licenses had a material adverse effect on our results of operations in the fourth quarter of 2017. Such and other future amendments, if implemented, may continue to materially adversely affect our results of operations, should we not succeed to mitigate such effects. See "Item 4. Information on the Company – B. Business Overview – Government Regulations." While our pricing is not generally regulated, certain of our rates and pricing mechanisms are subject to regulation. See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Cellular Segment – Tariff Supervision" and "– Fixed-line Segment – Tariff Supervision."

Competition may increase further if current trends continue, if the landline wholesale market, launched in 2015, is ineffective; if the structural separation imposed on the Bezeq and Hot groups or Bezeq's tariffs supervision is annulled or further relaxed or other unfavorable regulatory changes relating to the Bezeq and Hot groups are effected; if new competitors enter the communications markets, or if we do not procure or deploy a widespread landline infrastructure or enter into cooperation to use such infrastructure with an operator which owns such infrastructure. We have continually implemented aggressive efficiency measures in order to mitigate those adverse effects, which included voluntary retirement plans for employees. We intend to continue to implement changes in order to continue our efforts to mitigate the adverse effects of the increased competition in many areas in which we operate. We cannot guarantee the success of these measures. Moreover, unionization of our employees may impede the execution of such measures. See "Item 3. Key Information – D. Risk Factors – Risks Related to our Business - We face intense competition in all aspects of our business" and "-The unionizing of our employees may impede necessary organizational and personnel changes, result in increased costs or disruption to our operation", and "Item 4. Information on the Company - B. Business Overview – Competition" for additional details.

The construction and operation of our cell sites and other transmission facilities are highly regulated and require us to obtain various consents and permits. See “Item 4. Information on the Company – B. Business Overview - Government Regulations – Cellular segment – Permits for Cell Site Construction.” We have experienced difficulties in obtaining some of these consents and permits and our ability to rely on an exemption from obtaining a building permit was severely limited. Also, we may be operating a significant number of our cell sites in a manner not fully compatible with the building permits issued for them. Additional restrictions on the construction and operation of cell sites and other facilities may be enacted or we may be required to demolish or relocate these cell sites and facilities, which may adversely affect our existing networks and networks build out, specifically in urban areas, may prevent us from meeting our license requirements and could adversely affect our results of operations.

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

Our results are also impacted by currency fluctuations. While substantially all of our revenues are denominated in NIS, for 2017, approximately 16 % of cash outflow was denominated in, or linked to, other currencies, mainly U.S. dollars. Changes to the Israeli CPI, may also impact our results as our debentures (excluding Series G, I and K) and some of our expenses are linked to the Israeli CPI. Any devaluation of the NIS against the U.S. dollar or other foreign currencies will therefore increase the NIS cost of our expenses that are not denominated in NIS or are linked to those currencies and any increase in the Israeli CPI will increase the financial expenses associated with our debentures. We enter into derivative instruments to mitigate the effect of the various market risks associated with these expenses. See “Item 11 – Quantitative and Qualitative Disclosures About Market Risk.”

Further, we have incurred significant debt by issuing debentures and receiving loans, the aggregate outstanding principal amount of which as of December 31, 2017 was NIS 3,440 million and in January 2018 we issued additional debentures in an amount of approximately NIS 401 million. See “ – Liquidity and Capital Resources– Debt Service” and “-Other Credit Facilities”.

Our dividend policy targets a distribution of at least 75% of our annual net income on a quarterly basis. In respect of 2015, 2016 and 2017, our board of directors chose not to declare dividends given the intensified competition and its adverse effect on our results of operations and in order to strengthen our balance sheet. We undertook limitations on our dividend distributions in connection to the issuance of our F through L debentures and other credit facilities. See “Item 8. Financial Information – A. Statements and Other Financial Information - Dividend Policy” and “- B. Liquidity and Capital Resources- Dividend payments” and “– Debt Service” and “– Other Credit Facilities”.

As of the first quarter of 2017, we apply International Financial Reporting Standard (IFRS 15) following early adoption thereof, and capitalize part of the salaries expenses and commissions related to customer acquisition costs. The application of this standard had a material positive effect on the Company's financial results for 2017. The standard was applied using the cumulative effect approach as from the initial date of application. For additional details see note 2-F to our financial statements, included elsewhere in this report.

Revenues

We derive our revenues in the cellular segment primarily from the sale of cellular network services (such as airtime and data surfing), including content and value added services, roaming services as well as revenues derived from network sharing and hosting services, handset sale and handset repair services. Roaming services include roaming charges that we bill to our subscribers for the use of the networks of our roaming partners outside Israel, to which we refer as outbound roaming, and charges that we bill to our roaming partners whose subscribers use our network, to which we refer as inbound roaming. originating calls on our network and from interconnect revenues from other operators for calls terminating on our network.

Our revenues in the fixed-line segment are derived from the sale of fixed-line communications services which include: internet infrastructure (through the landline wholesale market, since February 2015) and connectivity services, OTT TV services (since December 2014), transmission services, provided to other operators and to Golan according to our network sharing agreement, international calling services (ILD), landline telephony services, operator services and teleconferencing services and equipment sales that are related to this segment.

Our revenues from cellular services are usually affected by seasonality with the third quarter of the year characterized by higher roaming revenues due to increased incoming and outgoing tourism. Equipment sales of the fixed-line segment are usually higher in the fourth quarter.

Cost of revenues

The principal components of our cost of revenues are the purchase of equipment, interconnect fees, content cost, cell site leasing costs, salaries, transmission services cost, internet connectivity services cost, purchase of call minutes related mainly to international calling services, outbound roaming services fees and cost of Internet infrastructure. Our cost of revenues also includes depreciation of the cost of our network equipment, tv set-top boxes, amortization of our spectrum licenses and rights of use of communications lines. As of April 1, 2017, our cost of revenues were decreased as a result of Golan's participation in operating costs according to the Network Sharing Agreement with Golan. 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 dealers' commissions, advertising, public relations and promotional expenses. We compensate our sales force through salaries and incentives. Since the first quarter of 2017 part of our customer acquisition costs (salaries and dealers commissions) are capitalized as a result of the early adoption of a new International Financial Reporting Standard (IFRS 15). Our selling and marketing expenses also include depreciation, mainly of leasehold improvements and equipment in our service centers and points of sales, and amortization of intangible assets related to the acquisition of subsidiaries.

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 and doubtful accounts allowance, and other administrative expenses. Our general and administrative expenses also include depreciation and maintenance fees, mainly for our billing and information systems.

Other income and expenses

Other income and expenses consist primarily of gain from the sale of a subsidiary in 2017, expenses related to employee retirement plan (in 2015 and 2016) and capital gains or losses from sale of property, plant and equipment.

Financing income and expenses

Financing income and expenses consist primarily of interest expense on long-term loans and interest on our debentures and other credit facilities, 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 income or losses relating to financial derivative instruments that do not qualify for hedge accounting according to IFRS. Financing income and expenses also include interest income on deposits, discount amortization associated with our debentures, and gains and losses from our current investment in tradable securities.

Income Tax

Generally, Israeli companies were subject to corporate tax on their taxable income at the rate of 26.5% for the 2015 tax year, 25% for the 2016 tax year and 24% for the 2017 tax year. The corporate tax rate will be 23% for the tax years of 2018 and onward.

Israeli companies are subject to capital gains tax at the corporate tax rate. A deferred tax asset or liability is created for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Results of Operations - Comparison of 2015, 2016 and 2017

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

	Year Ended December 31,			Change*	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
Cellular subscribers at end of period(1) (in thousands)	2,835	2,801	2,817	(1.2)%	0.6%
Internet-customers (households) (end of period) (in thousands) (2)	95	156	222	71.6%	35.0%
TV - households (end of period) (in thousands) (2)	63	111	170	76.2%	53.2%
Churn rate of cellular subscribers(1)(3)	42%	42%	46%	-	-
Average monthly revenue per cellular subscriber (ARPU) (1)(4) (in NIS)	65	63	57	(3.1)%	(9.5)%
Operating income (in NIS millions)	310	310	297	-	-
Net income (in NIS millions)	97	150	113	54.6%	(24.7)%
EBITDA(5) (in NIS millions)	872	858	853	(1.6)%	(0.6)%
Operating income margin(6)	7.4%	7.7%	7.6%	0.3pp	-
EBITDA margin(7)	20.9%	21.3%	22.0%	0.4pp	0.7pp

* pp denotes percentage points and this measure of change is calculated by subtracting the 2015 measure from the 2016 measure and the 2017 measure from the 2016 measure, respectively.

- (1) Cellular subscriber data refers to active subscribers. We use a six-month method of calculating our cellular subscriber base, which means that we deduct subscribers from our subscriber base after six months of no revenue generation and activity on our network and no data usage or less than NIS 1 of accumulated revenues from M2M (machine to machine) subscribers. We add a prepaid subscriber to our subscribers base only upon charging a prepaid card and remove them from our subscribers base after six months of generating no revenue. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel.
- (2) TV and Internet customers (households) refer to active subscribers. Internet households receive end-to-end internet service, including infrastructure (based on the wholesale landline market) and connectivity services.
- (3) Churn rate is defined as the total number of voluntary and involuntary permanent deactivations of cellular subscribers in a given period expressed as a percentage of the number of cellular subscribers at the beginning of such period. Involuntary permanent deactivations relate to cellular subscribers who have failed to pay their arrears for the period of six consecutive months. Voluntary permanent deactivations relate to cellular subscribers who terminated their use of our services. Churn rate data is excluding the above mentioned removals of subscribers.
- (4) Average monthly revenue per cellular subscriber (ARPU) is calculated by dividing revenues from cellular services for the period by the average number of cellular subscribers during the period and by dividing the result by the number of months in the period. Revenues from inbound roaming services and hosting and network sharing services are included even though the number of subscribers in the equation does not include the users of those roaming, hosting and network sharing services. Inbound roaming services, hosting and network sharing services are included because ARPU is meant to capture all service revenues generated by a cellular network. Revenues from sales of Subscription Repair Services are included because they represent recurring revenues generated by subscribers, but revenues from sales of handsets (which for purposes of this report may include other types of cellular end user equipment, such as tablets), Random Repair Services, and other 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 cellular ARPU for each of the periods presented:

	Year Ended December 31,		
	2015	2016	2017
	(In NIS millions, except number of subscribers and months)		
Revenues	4,180	4,027	3,871
less revenues from equipment sales	1,048	994	952
less other revenues not in ARPU*	869	881	949
Revenues used in ARPU calculation (in NIS millions)	2,263	2,152	1,971
Average number of subscribers	2,898,987	2,832,407	2,797,341
Months during period	12	12	12
ARPU (in NIS, per month)	65	63	57

* Other revenues include revenues from other communications services, mainly fixed-line revenues and repair services.

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

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

	Year Ended December 31,		
	2015	2016	2017
	(In NIS millions)		
Net income	97	150	113
Financing expenses, net	177	150	144
Taxes on income	36	10	40
Operating income	310	310	297
Other expenses (income), net (excluding gain from the sale of a subsidiary and expense related to employee retirement plans)	(3)	8	(1)
Depreciation and amortization	562	534	555
Share based payments	3	6	2
EBITDA	872	858	853

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

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

	Year Ended December 31,		
	2015	2016	2017
Revenues	100.0%	100.0%	100.0%
Cost of revenues	66.1%	67.1%	69.2%
Gross profit	33.9%	32.9%	30.8%
Selling and marketing expenses	14.8%	14.3%	12.4%
General and administrative expenses	11.1%	10.4%	11.0%
Other (income) expenses, net	0.5%	0.5%	0.2%
Operating income	7.4%	7.7%	7.6%
Financing expenses, net	4.2%	3.7%	3.7%
Income before income tax	3.2%	4.0%	3.9%
Income tax	0.9%	0.3%	1.0%
Net income	2.3%	3.7%	2.9%

Revenues

	Year Ended December 31,			Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	(In NIS millions)				
Revenues	4,180	4,027	3,871	(3.7)%	(3.9)%

The decrease in revenues in 2017 compared with 2016 is attributable to a 3.8% decrease in service revenues, driven by a decrease in the cellular segment's service revenues and a 4.2% decrease in equipment revenues. The decrease in service revenues was partially offset by an increase in revenues from the fixed-line segment in the Internet and TV fields.

The decrease in revenues in 2016 compared with 2015 is attributable to a 3.2% decrease in service revenues, driven by a decrease in the cellular segment's service revenues and a 5.2% decrease in equipment revenues. The decrease in service revenues was partially offset by an increase in revenues from the fixed-line segment in the Internet and TV fields.

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

	2015		2016		2017	
	Revenues (in NIS millions)	% of Total Revenues	Revenues (in NIS millions)	% of Total Revenues	Revenues (in NIS millions)	% of Total Revenues
Service revenues:						
Cellular services	2,121	50.7%	2,025	50.3%	1,777	45.9%
Fixed-line communications services*	866	20.7%	871	21.6%	1,004	25.9%
Other services**	145	3.5%	137	3.4%	138	3.6%
Total service revenues	3,132	74.9%	3,033	75.3%	2,919	75.4%
Equipment revenues	1,048	25.1%	994	24.7%	952	24.6%
Total revenues	4,180	100.0%	4,027	100.0%	3,871	100.0%

* Consists of international calling services, landline telephony services, transmission services, hubbing services, internet services (ISP and internet infrastructure services) and TV services.

** Consists of repair services fees.

During 2017, service revenues (comprising 75.4% of total revenues) decreased 3.8%, compared with 2016. This decrease in service revenues resulted mainly from a 12.2% decrease in cellular service revenues resulting mainly from the ongoing erosion in the prices of these services and from the difference between the national roaming services revenues in 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan. The decrease was partially offset by a 15.3% increase in the fixed-line service revenues resulting mainly from an increase in revenues from TV and internet services, as well as from fixed-line communications services provided according to the network sharing agreement with Golan which came into force as of the beginning of the second quarter of 2017.

During 2016, service revenues (comprising 75.3% of total revenues) decreased 3.2%, compared with 2015. This decrease in service revenues resulted mainly from a 4.5% decrease in revenues from cellular services due to the ongoing price erosion of those services and a decrease in subscriber base resulting from the intensified competition in the cellular market.

Fixed-line service revenues totaled NIS 1,004 million in 2017 compared to NIS 871 million in 2016. This increase resulted mainly from an increase in revenues from TV and internet services, as well as of fixed-line communications services provided according to the network sharing agreement with Golan, which was partially offset as a result of the deconsolidation of Internet Rimon Israel 2009 Ltd. (our indirect subsidiary), or Internet Rimon, following the sale of the Group's holdings in Internet Rimon in the second quarter of 2017.

Fixed-line service revenues totaled NIS 871 million in 2016 compared to NIS 866 million in 2015. This increase in fixed-line service revenues resulted mainly from an increase in revenues from Internet and TV fields. Such increase was partially offset by a decrease in revenues from long distance calls.

During 2017, revenues from other services totaled NIS 138 million compared with a total of NIS 137 million in 2016.

During 2016, revenues from other services decreased 5.5%, compared with 2015. This decrease resulted from a decrease in repair services.

During 2017, equipment revenues (comprising 24.6% of total revenues) decreased 4.2%, compared with 2016. This decrease resulted mainly from a decrease in the quantity of cellular segment end user equipment sold during 2017 as compared to 2016. This decrease was partially offset by an increase in end user equipment sales in the fixed-line segment.

During 2016, equipment revenues (comprising 24.7% of total revenues) decreased 5.1%, compared with 2015. This decrease resulted mainly from a decrease in the quantity of cellular segment end user equipment sold during 2016 as compared to 2015. This decrease was partially offset by an increase in end user equipment sales in the fixed-line segment.

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

	2015		2016		2017	
	Revenues (in NIS millions)	% of Total Revenues	Revenues (in NIS millions)	% of Total Revenues	Revenues (in NIS millions)	% of Total Revenues
Individual	3,000	71.8%	2,832	70.3%	2,702	69.8%
Business	1,011	24.2%	971	24.1%	992	25.6%
Other*	169	4.0%	224	5.6%	177	4.6%
Total	4,180	100.0%	4,027	100.0%	3,871	100.0%

* Mainly consists of revenues from inbound roaming services, hosting services and network sharing services.

A breakdown of revenues according to types of subscribers (individual and business) during 2017 compared with 2016, shows a 4.6% decrease in revenues attributable to individual subscribers and a 2.2% increase in revenues attributable to business subscribers. The decrease in the revenues attributable to individual subscribers resulted mainly from the ongoing erosion in the price of cellular services, resulting from the intensified competition in the cellular market. The increase in revenues attributable to the business subscribers resulted mainly from an increase in equipment revenues from that subscriber base.

A breakdown of revenues according to types of subscribers (individual and business) during 2016 compared with 2015, shows a 5.6% decrease in revenues attributable to individual subscribers and a 4.0% decrease in revenues attributable to business subscribers. These decreases resulted mainly from the ongoing erosion in the price of cellular services, resulting from the intensified competition in the cellular market. The decrease in revenues attributable to both individual and business subscribers also resulted from a decrease in revenues in the fixed-line segment from international calling services which primarily resulted from price erosion due to market competition.

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

	2015		2016		2017	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(in NIS millions)		(in NIS millions)		(in NIS millions)	
Pre-paid	251	6.0%	207	5.1%	195	5.0%
Post-paid	3,760	90.0%	3,596	89.3%	3,499	90.4%
Other*	169	4.0%	224	5.6%	177	4.6%
Total	4,180	100.0%	4,027	100.0%	3,871	100.0%

* Mainly consists of revenues from inbound roaming services, hosting services and network sharing services.

A breakdown of revenues according to types of subscription plans (pre-paid and post-paid) during 2017 compared with 2016, shows a 2.8% decrease in revenues attributable to post-paid subscribers and a 5.8% decrease in revenues attributable to pre-paid subscribers. The decrease in revenues attributable to post-paid subscribers was primarily the result of the ongoing erosion in the price of cellular services, resulting from the intensified competition in the cellular market. The decrease in revenues attributable to pre-paid subscribers resulted mainly from increased churn of pre-paid cellular subscribers, as well as from the ongoing price erosion.

A breakdown of revenues according to types of subscription plans (pre-paid and post-paid) during 2016 compared with 2015, shows a 4.4% decrease in revenues attributable to post-paid subscribers and a 17.5% decrease in revenues attributable to pre-paid subscribers. The decrease in revenues attributable to post-paid subscribers was primarily the result of the ongoing erosion in the price of cellular services, resulting from the intensified competition in the cellular market. This decrease resulted also from a decrease in revenues in the fixed-line segment from international calling services. The decrease in revenues attributable to pre-paid subscribers resulted mainly from increased churn of pre-paid cellular subscribers, as well as from the ongoing price erosion.

Segment Revenues Discussion

We operate in two operating segments:

Cellular Segment – this segment includes the cellular communications services, cellular equipment and supplemental services.

Fixed-line Segment – this segment includes landline telephony services, internet infrastructure and connectivity services (ISP), television services, transmission services landline equipment and supplemental services.

These segments are managed separately for the purposes of allocating resources and assessing performance.

We started presenting our operations in these two segments as of January 1, 2016 and adjusted our operating segment reporting for 2015 and 2014 on a retroactive basis; therefore, the segment reporting for those periods reflects the new reporting format.

We measure revenues on an operating segment basis. The following is a discussion of our revenues for our two operating segments:

	Year Ended December 31,			Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	(In NIS millions)				
Cellular service revenues	2,273	2,162	1,929	(4.9)%	(10.8)%
Cellular equipment revenues	930	836	770	(10.1)%	(7.9)%
Total cellular revenues	3,203	2,998	2,699	(6.4)%	(10.0)%
Fixed-line service revenues	1,063	1,071	1,166	0.8%	8.9%
Fixed-line equipment revenues	118	158	182	33.9%	15.2%
Total Fixed-line revenues	1,181	1,229	1,348	4.1%	9.7%
Consolidation adjustments	(204)	(200)	(176)	(2.0)%	(12)%
Consolidated revenues	4,180	4,027	3,871	(3.7)%	(3.9)%

Cellular Segment

Revenues from the cellular segment in 2017 totaled NIS 2,699 million (including inter-segment revenues), compared to NIS 2,998 million in 2016. The decrease was primarily due to a decline in service revenues of 10.8% resulting mainly from the ongoing erosion in the price of these services and from the difference between the national roaming services revenues in 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as of the beginning of the second quarter of 2017 and a decrease in cellular equipment revenues of 7.9% compared to 2016.

Revenues from the cellular segment in 2016 totaled NIS 2,998 million (including inter-segment revenues), compared to NIS 3,203 million in 2015. The decrease was primarily due to a decline in service revenues of 4.9% due to the ongoing erosion in the price of cellular services resulting from the intensified competition in the market and a decrease in cellular equipment revenues of 10.1% compared to 2015.

Fixed-line Segment

Revenues for the fixed-line segment (including inter-segment revenues) in 2017 totaled NIS 1,348 million, compared to NIS 1,229 million in 2016. This increase resulted mainly from an increase in revenues from TV and internet services, as well as of fixed-line communications services provided according to the network sharing agreement with Golan.

Revenues for the fixed-line segment in 2016 totaled NIS 1,229 million (including inter-segment revenues), compared to NIS 1,181 million in 2015. This increase resulted mainly from an increase in fixed-line equipment sales revenues, as well as an increase in service revenues such as Internet and TV fields. The increase was partially offset by a decrease in revenues from long distance calling services.

Segment EBITDA Discussion

We measure EBITDA on an operating segment basis. See note 6 to our financial statements included elsewhere in this report for details of this measure of segment profitability. We define segment EBITDA as income for a segment before financing income (expenses), net; other income (expenses), net (excluding gain from the sale of a subsidiary and expenses related to employee retirement plans); income tax; depreciation and amortization; and share based payments.

Cellular segment

In 2017, the cellular segment generated EBITDA of NIS 595 million compared to NIS 625 million in 2016, a 4.8% decrease. This decrease resulted mainly from the difference between national roaming services revenues in 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan in 2017, and from the ongoing erosion in cellular service revenues. This decrease was partially offset by a decrease in selling and marketing expenses due to the capitalization of part of the customer acquisition costs as a result of the early adoption of a new International Financial Reporting Standard (IFRS15).

In 2016, the cellular segment generated EBITDA of NIS 625 million compared to NIS 601 million in 2015, a 4.0% increase. The increase resulted mainly from an increase in revenues from national roaming, and from a decrease in operating expenses, mainly as a result of efficiency measures we implemented during 2016 which led to a decrease in salary and other costs partially offset by a decrease of cellular service revenues due to the ongoing erosion in prices of cellular services.

Fixed-line segment

In 2017, the fixed-line segment generated EBITDA of NIS 258 million compared to NIS 233 million in 2016, a 10.7% increase. The increase arose mainly as a result of an increase in revenues from fixed-line communications services provided according to the network sharing agreement with Golan and from a decrease in operating expenses. This increase was partially offset as a result of an erosion in the internet field profitability, as well as from the deconsolidation of Internet Rimon following its sale.

In 2016, the fixed-line segment generated EBITDA of NIS 233 million compared to NIS 271 million in 2015, a 14.0% decrease. The decrease primarily resulted from an erosion in the long distance calling revenues and an erosion in internet field profitability.

Cost of revenues and gross profit

	Year Ended December 31,			Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	(In NIS millions)				
Cost of service revenues	2,000	2,028	2,035	1.4%	0.3%
Cost of equipment revenues	763	674	645	(11.7)%	(4.3)%
Total cost of revenues	2,763	2,702	2,680	(2.2)%	(0.8)%
Gross profit	1,417	1,325	1,191	(6.5)%	(10.1)%

The increase in cost of service revenues in 2017 compared with 2016 resulted mainly from an increase in costs of TV services content and in costs related to internet services in the fixed-line segment. This increase was partially offset by a decrease in costs resulting from Golan's participation in operating costs according to the network sharing agreement with Golan.

The decrease in cost of equipment revenues resulted mainly from a decrease in costs of end user equipment sold, primarily as a result of a decrease in the quantity of end user equipment sold in the cellular segment during 2017 as compared to 2016.

The increase in cost of service revenues in 2016 compared with 2015 mainly resulted from an increase in content costs related to the TV field and in costs related to the landline wholesale market field. This increase was partially offset by efficiency measures we implemented during 2016 which led to a decrease in salary and other maintenance costs.

The decrease in cost of equipment revenues resulted mainly from a decrease in costs of end user equipment, primarily as a result of a decrease in the quantity of handsets sold during 2016 as compared to 2015.

The decrease in gross profit in 2017 compared with 2016 resulted mainly from the ongoing erosion in the price of cellular services.

The decrease in gross profit in 2016 compared with 2015 resulted mainly from the ongoing erosion in the price of cellular services, an increase in content costs related to the TV field and in costs related to the landline wholesale market field.

Selling and marketing expenses and general and administrative expenses

	Year Ended December 31,			Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	(In NIS millions)				
Selling and marketing expenses	620	574	479	(7.4)%	(16.6)%
General and administrative expenses	465	420	426	(9.7)%	1.4%
Total	1,085	994	905	(8.4)%	(8.9)%

The decrease in selling and marketing expenses in 2017 compared with 2016, is primarily the result of a decrease in salaries and commissions expenses due to the capitalization of part of the customer acquisition costs as a result of the early adoption of a new International Financial Reporting Standard (IFRS 15) since the first quarter of 2017. The effect of the adoption of the standard on 2017 expenses was in a total amount of NIS 93 million (\$27 million).

The decrease in selling and marketing expenses in 2016 compared with 2015, was primarily the result of efficiency measures we implemented, which led to a decrease in salary costs, as well as a one-time expense in 2015 as a result of entering a collective employment agreement and from a decrease in amortization expenses.

The increase in general and administrative expenses in 2017 compared with 2016 resulted mainly from an increase in doubtful debts in 2017 compared to 2016.

The decrease in general and administrative expenses in 2016 compared with 2015, resulted mainly from efficiency measures we implemented, which led to a decrease in IT (Information Technology) expenses and other expenses as well as a decrease in depreciation expenses.

Other income (expenses), net

	Year Ended December 31,		
	2015	2016	2017
	(In NIS millions)		
Other income (expenses), net	(22)	(21)	11

Other income in 2017 mainly includes a gain from the sale of Internet Rimon, in the amount of approximately NIS 10 million. Other expenses in 2016 primarily include an expense of NIS 13 million following an employee voluntary retirement plan executed in the second quarter of 2016, which was not present in 2017.

Other expenses in 2016 primarily include an expense of NIS 13 million following an employee voluntary retirement plan executed in the second quarter of 2016, compared to an expense of NIS 25 million following an employee voluntary retirement plan for employees executed in the second quarter of 2015. Other expenses include also capital losses from sale of property, plant and equipment.

Financing expenses, net

	Year Ended December 31,		
	2015	2016	2017
	(In NIS millions)		
Financing expenses	(232)	(196)	(196)
Financing income	55	46	52
Financing expenses, net	(177)	(150)	(144)

Financing expenses, net, for 2017 decreased 4.0% compared with 2016. The decrease resulted mainly from higher gains in the Company's investment portfolio in 2017 compared to 2016.

Financing expenses, net, for 2016 decreased 15.3% compared with 2015. The decrease resulted mainly from a decrease in interest expenses associated with our debentures, due to a decrease in our average debt level in 2016 compared to 2015.

Interest and CPI linkage expenses associated with the principal amount of the debentures incurred during 2015, 2016 and 2017 were approximately NIS 147 million, NIS 157 million and NIS 169 million, respectively.

Income tax

	Year Ended December 31,			Change	
	2015	2016	2017	2015 vs. 2014	2016 vs. 2015
	(In NIS millions)				
Taxes on income	36	10	40	(72.2)%	400%

Taxes on income for 2017 increased 400% compared with 2016. This increase resulted mainly from the positive effects in 2016 of a tax assessment agreement for the years 2012-2013 and from recording income deferred tax in 2016 following a decrease in the corporate tax rate for the years 2017 and thereafter.

Taxes on income for 2016 decreased 72.2% compared with 2015. This decrease resulted mainly from the positive effects of a tax assessment agreement for the years 2012-2013 and from recording income deferred tax in 2016 following a decrease in the corporate tax rate for the years 2017 and thereafter.

Net income

	Year Ended December 31,			Change	
	2015	2016	2017	2016 vs. 2015	2017 vs. 2016
	(In NIS millions)				
Net income	97	150	113	54.6%	(24.6)%

The decrease in net income in 2017 compared with 2016, was primarily due to a decrease in operating profit mainly from the ongoing erosion in the price of cellular services and from a tax income in 2016, as a result of a tax assessment agreement for the years 2012-2013 and a decrease in corporate tax rate for the years 2017 and thereafter.

The increase in net income in 2016 compared with 2015, was primarily due to a decrease in financing expenses, net, mainly from a decrease in interest expenses associated with our debentures, due to a decrease in our average debt level, and from tax income, as a result of a tax assessment agreement for the years 2012-2013 and a decrease in corporate tax rate for the following years.

B. LIQUIDITY AND CAPITAL RESOURCES

General

Our liquidity requirements relate primarily to working capital requirements, debt service, capital expenditures for the expansion and enhancement of our networks, end user equipment and payment of dividends, to the extent declared. We fund these requirements through cash flows from operations and raising new debt.

Since institutional investors were required to follow certain procedures and requirements pursuant to Israeli regulation before investing in non-governmental debentures, our series F through L indentures include certain limitations and covenants. For additional details see "– Debt Service" below. These limitations are generally also included in our other credit facilities (see "– Other Credit Facilities" below) and are expected to apply to any additional debt incurred by us. These procedures, limitations and covenants limit our freedom to conduct our business, may impose additional costs on us and may limit our ability to borrow additional debt from Israeli institutional investors as well as adversely affect the terms and price of such debt raising.

In May 2012 and June 2013, the rating of our debentures was downgraded. Though the rating of our debentures remained stable since then, any downgrade in our ratings may adversely affect the terms and price of our debt or additional debt raised, particularly through the issuance of debentures to institutional investors, which, given the limitation on the ability of Israeli banks to lend money to us pursuant to the "Guidelines for Sound Bank Administration" issued by the Israeli Supervisor of Banks (as for that purpose we are deemed to be included in the same group as DIC), may limit our ability to obtain additional financing to operate, develop and expand our business or to refinance existing debt. We believe that our sources of liquidity and capital resources, including working capital, financial reserves and our private future debentures placement and other credit facilities, are adequate for our current requirements and business operations and should be adequate to satisfy our anticipated cash needs for working capital, capital expenditures, other current corporate needs and debt service for at least the next 12 months, including the distribution of dividends, should our Board of Directors decide to reinstate dividend payments (after having suspended dividend declaration after the dividend declaration for the third quarter of 2013 in order to strengthen our balance sheet) Our future capital requirements will depend on many factors, including level of revenues, 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 of existing products, the level and timing of investing in our networks and services, including our OTT TV, internet infrastructure and IOT services and any decision to reinstate dividends. Our Board of Directors would not expect to reinstate dividends unless it believes that our cash flow and available reserves will be sufficient to fund our needs, including our dividends.

In February 2006, our Board of Directors adopted a policy to distribute each year at least 75% of our annual net income, on a quarterly basis, as dividends, subject to compliance with applicable law, our license and contractual obligations and so long as the distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. We undertook limitations on dividend distributions in our indentures of series F through L debentures and in other credit facilities. See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Dividend Policy", "- Debt Service" and "-Other Credit Facilities" below. In respect of 2016, our Board of Directors chose not to declare dividends given the intensified competition and its adverse effect on our results of operations and in order to strengthen our balance sheet. 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 various expenditures previously made by the Company, including prior investments and expenses and prior dividend payments, and we would need to identify additional sources of financing, which could include equity or debt financing. We may not be able to obtain such financing on acceptable terms or at all.

Dividend payments

In 2015, 2016 and 2017 our Board of Directors chose not to declare dividends given the intensified competition and its adverse effect on our results of operations and in order to strengthen our balance sheet.

Debt service

Shelf Prospectus

In August 2017, we filed a shelf prospectus with the Israeli Securities Authority, or ISA, and the Tel Aviv Stock Exchange, or TASE. The shelf prospectus allows us, from time to time, until August 2019 (or if approved by the ISA, subject to certain conditions, until August 2020), to offer and sell various securities including debt and equity, in Israel, in one or more offerings, subject to filing a supplemental shelf offering report that describes the terms of the securities offered and the specific details of the offering and the prior approval of the TASE of the supplemental shelf offering report.

At this stage, no decision has been made as to the execution of any offering, nor as to its scope, terms and timing, if executed, and there is no certainty that such offering will be executed.

The shelf prospectus includes our undertaking to comply with certain reporting obligations under the Israeli securities law in the event of certain warning signs of financial stress.

Public debentures

In 2017 we repaid our Series B, D and E debentures in full.

Our Series F and G debentures were issued in March 2012 to the public in Israel under our 2011 shelf prospectus (as amended in March 2012) and were listed for trading on the Tel Aviv Stock Exchange. As of December 31, 2017, these debentures consisted of approximately NIS 643 million (\$185 million) aggregate principal amount Series F debentures (and in January 2018, we repaid a principal payment in the amount of approximately NIS 214 million (\$62 million)) and approximately NIS 228 million (\$66 million) aggregate principal amount Series G debentures (and in January 2018, we repaid another principal payment in the amount of approximately NIS 143 million (\$41 million)).

The Series F principal is payable in four annual installments: one payment of 10% of the principal on January 5, 2017, and three equal annual installments of 30% of the principal, on January 5 of each of the years 2018 through 2020 (inclusive). The interest on Series F debentures is payable in semi-annual installments on January 5 and on July 5, of each calendar years commencing July 5, 2012 through January 5, 2020 (inclusive). Series F debentures bear an interest rate of 4.35% per annum, linked to the Israeli CPI for February 2012. In June 2013, following the ratings decrease discussed above, the annual interest rate for our Series F debentures was increased by 0.25% to 4.60%, beginning July 5, 2013.

The Series G principal is payable in three annual installments: one payment of 20% of the principal on January 5, 2017, a second payment of 50% of the principal on January 5, 2018 and a third and last payment of 30% of the principal on January 5, 2019. The interest on Series G debentures is payable in semi-annual installments on January 5 and on July 5 of each calendar year commencing July 5, 2012 through January 5, 2019 (inclusive). Series G debentures bear an interest rate of 6.74% per annum, without any linkage. In June 2013, following the ratings decrease discussed above, the annual interest rate for our Series G debentures was increased by 0.25% to 6.99%, beginning July 5, 2013.

The Series F and G debentures are unsecured and contain, in addition to standard terms and obligations, the following obligations:

a negative pledge, subject to certain exceptions;

a covenant not to distribute more than 95% of the profits available for distribution according to the Companies Law ("Profits"); provided that if our net leverage (defined as the ratio of net debt to EBITDA during a period of 12 consecutive months, excluding one-time events) exceeds 3.5:1, we will not distribute more than 85% of our Profits and if our net leverage exceeds 4.0:1, we will not distribute more than 70% of our Profits. For this purpose, net debt is defined as credit and loans from banks and others and debentures, net of cash and cash equivalents and current investments in tradable securities; and EBITDA is defined as profit before depreciation and amortization, other expenses or income, net, financing expenses or income, net and taxes on income;

a limitation on our ability to voluntarily redeem the debentures prior to their stated maturity date to a minimum amount of NIS 100 million of each series of debentures and an undertaking to pay the holders of such debentures an additional annual interest of 1% in the event of such early redemption;

a covenant to have the debentures rated by a rating agency (in as much as under our control);

an obligation to pay additional interest of 0.25% for a two-notch downgrade in the debentures' rating and additional interest of 0.25% for each additional one-notch downgrade and up to a maximum addition of 1%, in comparison to the rating given to the debentures prior to their issuance;

a covenant not to issue additional debentures of the relevant series if the additional issuance by itself, will cause a certain rating downgrade.

We also agreed to the addition of the certain events to the list of events of default of the Series F and G debentures, including:

cross default, excluding following an immediate repayment initiated in relation to a liability of NIS 150 million or less;

failure of our main business to be cellular communications or loss of our cellular license for a period of over 60 days;

suspension of trading of the debentures on the TASE over a period of 45 days;

failure to comply with the above covenant regarding limitations on dividend distributions;

failure to have the debentures rated over a period of 60 days;

a petition or court order to withhold all legal proceedings against us or petition for creditors arrangement filed;

the sale of a major part of our assets or merger (with certain exclusions);

failure to publish financial reports when due;

a net leverage in excess of 5.0:1, or in excess of 4.5:1 during four consecutive quarters;

failure to comply with our negative pledge covenant; and

any other event causing or expected to cause a material adverse effect (which shall not include any event that shall or is likely to cause our net leverage to increase to a ratio of under 5.0:1) on our business and posing real threat of a substantial damage to the debenture holders' rights.

Our Series H and I debentures were issued in July 2014 to the public in Israel under our 2014 shelf prospectus and were listed for trading on the Tel Aviv Stock Exchange. In February 2015, pursuant to an exchange offer under our 2014 shelf prospectus and in a private offering, we issued approximately NIS 844 million (\$243 million) principal amount of Series H debentures and approximately NIS 335 million (\$97 million) principal amount of series I debentures in exchange for approximately NIS 555 million (\$160 million) principal amount of Series D debentures and approximately NIS 272 million (\$78 million) principal amount of Series E debentures, respectively. Series D and Series E were fully repaid. In March 2016, we issued approximately NIS 246 million (\$71 million) aggregate principal amount of additional Series I debentures to certain institutional investors in a private offering. As of December 31, 2017, our Series H and I debentures consisted of approximately NIS 950 million (\$274 million) principal amount and NIS 804 million (\$232 million) principal amount.

The Series H debentures principal is payable in seven annual installments: three equal annual installments of 12% of the principal on July 5 of the years 2018 through 2020 (inclusive), and four equal annual installments of 16% of the principal on July 5 of the years 2021 through 2024 (inclusive). The interest on the Series H debentures is payable in semi-annual installments on January 5 and on July 5, of each calendar year commencing January 5, 2015 through July 5, 2024 (inclusive). The Series H debentures bear an interest rate of 1.98% per annum, linked to the Israeli Consumer Price Index for May 2014.

The Series I debentures principal is payable in eight annual installments: three equal annual installments of 10% of the principal on July 5 of the years 2018 through 2020 (inclusive), and five equal annual installments of 14% of the principal on July 5 of the years 2021 through 2025 (inclusive). The interest on the Series I debentures is payable in semi-annual installments on January 5 and on July 5 of each calendar year commencing January 5, 2015 through July 5, 2025 (inclusive). The Series I debentures bear an interest rate of 4.14% per annum, without any linkage.

The Series H and I debentures are unsecured and contain, in addition to standard terms and obligations and the above undertakings in our Series F and G indenture which generally apply to our Series H and I debentures as well, the following obligations:

in addition to being an event of default, meeting the financial covenants would be a condition for dividend distribution; and

meeting the financial covenants would also be a condition for the issuance of additional debentures of each of the two new series.

The Series H and I Indenture contains substantially similar events of default to those included in the Series F and G Indenture, with the addition of certain events of default that do not appear in the Series F and G Indenture as well as certain modifications to the events of default that are included in the Series F and G Indenture, including:

breach of the above limitation on dividend distributions;

the minimum amount required for triggering a cross default shall not apply to a cross default triggered by another series of debentures;

the existence of a real concern that we shall not meet our material undertakings towards the debenture holders;

the inclusion in our financial statements during a period of two consecutive quarters of a note regarding the existence of significant doubt as to our ability to continue as a going concern; and

breach of our undertakings regarding the issuance of additional debentures.

Our Series J and K debentures were issued in September 2016 to the public in Israel under our 2014 shelf prospectus and were listed for trading on the Tel Aviv Stock Exchange. As of December 31, 2017, our Series J and K debentures consisted of approximately NIS 103 million (\$30 million) principal amount and NIS 304 million (\$88 million) principal amount.

In June 2017, we entered into an agreement with certain Israeli institutional investors, according to which we irrevocably undertook to issue to the institutional investors, and the institutional investors irrevocably undertook to purchase from us, NIS 220 million (\$64 million) aggregate principal amount of additional debentures of Series K debentures on July 1, 2018, or the Agreed Date. The price was set at NIS 1.011 for each Series K debenture of NIS 1 principal amount, or a total consideration of approximately NIS 222 million (\$62 million). We are required to pay a certain commitment fee to the institutional investors. In case the debentures' credit rating on the Agreed Date will be il/(A-) or below, the price will be reduced to NIS 1.001 for each Series K debenture of NIS 1 principal amount. The closing of the issuance will be subject to certain customary conditions, including: the absence of any event of default under the Series K debentures indenture; our having an Israeli shelf prospectus in force; and satisfaction of the conditions set out in the Series K debentures indenture for the issuance of additional Series K debentures (meaning, apart from the no events of default condition detailed above, that the issuance of additional debentures itself will not cause a rating downgrade compared to the rating prior to such issuance, and that we meet the financial covenants applicable to the Series K debentures on the date of such issuance and thereafter).

The Series J debentures principal is payable in six installments, of which the first four installments of 15% of the principal each are payable on July 5 of the years 2021 through 2024, and the remaining two installments of 20% of the principal each are payable on July 5 of the years 2025 and 2026. The interest on the Series J debentures is payable on January 5 and on July 5 of each of the years 2017 through 2026. The Series J debentures bear interest at the rate of 2.45% per annum, linked to the Israeli Consumer Price Index for August 2016.

The Series K debentures principal is payable in six installments, of which the first four installments of 15% of the principal each are payable on July 5 of the years 2021 through 2024, and the remaining two installments of 20% of the principal each are payable on July 5 of the years 2025 and 2026. The interest on the Series K debentures is payable on January 5 and on July 5 of each of the years 2017 through 2026. The Series K debentures bear interest at the rate of 3.55% per annum, without linkage.

The Series J and Series K debentures are unsecured and contain standard terms and conditions in addition to certain additional undertakings by us generally similar to the terms of our existing Series H and Series I debentures.

Our Series L debentures were issued in January 2018 to the public in Israel under our 2017 shelf prospectus and were listed for trading on the Tel Aviv Stock Exchange. As of December 31, 2017, our Series L debentures consisted of approximately NIS 401 million (\$116 million) principal amount.

The Series L debentures principal is payable in six installments, of which the first four installments of 15% of the principal are each payable on January 5 of the years 2023 through 2026, and the remaining two installments of 20% of the principal are each payable on January 5 of the years 2027 and 2028. The interest on the Series L debentures is payable on January 5 of each of the years 2019 through 2028. The Series L debentures bear interest at the rate of 2.5% per annum, without linkage.

The Series L debentures are unsecured and contain standard terms and conditions in addition to certain additional undertakings by us generally similar to the terms of our existing Series J and Series K debentures, with a change to the additional interest to be paid in case of a two-notch downgrade in the debentures' credit rating to 0.5% (with no change to the maximum additional interest).

As of December 31, 2017, we complied with the above covenants.

Other credit facilities

In May 2015, we entered into a loan agreement with two Israeli financial institutions, or Lenders, according to which the Lenders have agreed, subject to certain customary conditions, to provide us two deferred loans for the total principal amount of NIS 400 million (\$115 million), without any linkage, as follows:

A principal amount of NIS 200 million (\$58 million) was provided to us in June 2016, and bears an annual fixed interest of 4.6%. The loan's principal amount is payable in four equal annual payments on June 30 of each of the years 2018 through 2021 (inclusive). The interest will be paid in ten semi-annual installments on June 30 and December 31, of each calendar year commencing December 31, 2016 through and including June 30, 2021.

A principal amount of NIS 200 million (\$58 million) was provided to us in June 2017, and bears an annual fixed interest of 5.1%. The loan's principal amount is payable in four equal annual payments on June 30 of each of the years 2019 through 2022 (inclusive). The interest will be paid in ten semi-annual installments on June 30 and December 31, of each calendar year commencing December 31, 2017 through and including June 30, 2022.

Under the agreement, the interest rate may be subject to certain adjustments. Until the provision of the loans, we are required to pay the Lenders a commitment fee. We may cancel or prepay one or both loans, subject to a certain cancellation fee or prepayment fee, as applicable. The agreement includes standard terms and obligations and also generally includes the negative pledge, limitations on distributions, events of default and financial covenants applicable to our series F through I debentures.

In August 2015, we entered into a loan agreement with an Israeli bank, or Lender, according to which the Lender has agreed, subject to certain customary conditions, to provide us a deferred loan in a principal amount of NIS 140 million (\$40 million), without any linkage, which was provided to us in December 2016, and bears an annual fixed interest of 4.9%. The loan's principal amount is payable in five equal annual payments on June 30 of each of the years 2018 through 2022 (inclusive), and the interest will be payable in 11 semi-annual installments on June 30 and December 30 of each calendar year commencing June 30, 2017 through and including June 30, 2022.

Under the Agreement, the interest rate may be subject to certain adjustments. We may prepay the loan, subject to a prepayment fee. The agreement also includes certain events which if not approved by the Lender allow the Lender to notify us of an acceleration of the repayment of the loan.

The agreement includes standard terms and obligations and also generally includes the negative pledge, limitations on distributions, financial covenants and event of defaults applicable to our series F through I debentures, with certain modifications, including foreclosure, materialization of a pledge, execution actions, receivership and (subject to certain exclusions) sale of assets in a specified certain lower amount, a failure to operate in a field which is material to our operations, and mergers and changes of formation (with more limited exclusions) will trigger an event of default. In case we provide stricter financial covenants to another financial institution or debenture holder, those will apply to this agreement as well.

In June 2017, we entered into an additional loan agreement with the Lender according to which the Lender has agreed, subject to certain customary conditions, to provide us a deferred loan in a principal amount of NIS 150 million (\$43 million), unlinked, in March 2019, which will bear an annual fixed interest of 4%. The loan's principal amount will be payable in four equal annual payments on March 31 of each of the years 2021 through and including 2024 and the interest will be payable in ten semi-annual installments on March 31 and September 30 of each calendar year, commencing September 30, 2019 through and including March 31, 2024. Until the provision of the loan, we are required to pay the Lender a commitment fee. The agreement includes similar terms and obligations to those included in our August 2015 loan agreement and applies the right to demand immediate repayment of either or both loans due to certain events of default under either agreement.

As of December 31, 2017, we complied with the above covenants.

In the ordinary course of business, from time to time, we and our subsidiaries, enter into framework agreements with banks for various banking services, such as credit lines and hedging transactions. In 2015, we entered into an extended payment terms agreement with a bank in relation to a certain supplier, which includes terms similar to our loan agreements and we allow such arrangements requested by our suppliers from time to time.

Capital expenditure

Our accrual capital expenditure in 2015, 2016 and 2017 amounted to NIS 396 million, NIS 382 million and NIS 550 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and intangible assets, such as investments in our communications networks, information systems, software and TV set-top boxes and as from 2017, capitalization of part of the customer acquisition costs as a result of the early adoption of a new International Financial Reporting Standard (IFRS15).

Cash flows from operating activities

Cash flows from operating activities totaled NIS 774 million in 2017, a decrease from NIS 781 million in 2016. The decrease in cash flow is primarily attributed to a decrease in proceeds from customers due to the decrease in service revenues.

Cash flows from operating activities totaled NIS 781 million in 2016, a decrease from NIS 836 million in 2015. The decrease in cash flow is primarily attributed to a decrease in proceeds from customers due to the decrease in service revenues.

Cash flows from investing activities

The net cash flows from operating activities is the main capital resource for our investment activities. In 2015, 2016 and 2017, our net cash used in investing activities amounted to NIS 96 million, NIS 364 million and NIS 644 million, respectively. The payments were used primarily for the improvement and expansion of our networks and information systems infrastructures. The increase in 2017 compared with 2016 resulted mainly from higher cash capital expenditures in fixed assets and intangible assets and others in 2017 mainly due to the capitalization of part of the customer acquisition costs as a result of the early adoption of a new International Financial Reporting Standard (IFRS15) as compared to 2016 and of our current investments in tradable debentures. The increase in 2016 compared with 2015 resulted mainly from a repayment of a long-term deposit and cashing out part of our current investments in tradable debentures in 2015.

Cash flows from financing activities

In 2017, net cash used in financing activities amounted to NIS 843 million compared to NIS 62 million received in 2016. The net cash we used is primarily attributable to payments of principal and interest for our debentures.

In 2016, net cash received in financing activities amounted to NIS 62 million compared to NIS 1,136 million in 2015. The net cash we received is primarily attributable to the issuance of new series of debentures and receipt of new loans from financial institutions in a total net amount of NIS 993 million in 2016.

Working capital

Our working capital as of December 31, 2017 was NIS 692 million, compared with NIS 1,074 million as of December 31, 2016. The decrease in working capital was primarily due to a decrease in cash and cash equivalents.

Our working capital as of December 31, 2016 was NIS 1,074 million, compared with NIS 625 million as of December 31, 2015. The increase in working capital was primarily due to an increase in cash and cash equivalents.

Trade receivables

Trade receivables consist of outstanding amounts due from customers, mainly for cellular, internet infrastructure and connectivity and landline telephony services and handsets and accessories, net of the allowance for doubtful accounts. Most of our handset sales are made on an installment basis (generally, 36 monthly payments). Installments due in the twelve months following the balance sheet date are included in current trade receivables; the remaining installments are included in long-term receivables. As of December 31, 2017, net current trade receivables amounted to NIS 1,280 million compared with NIS 1,325 million as at December 31, 2016 and NIS 1,254 million as at December 31, 2015. Net long-term trade receivables as of December 31, 2017 amounted to NIS 412 million compared with NIS 461 million as at December 31, 2016 and NIS 467 million as at December 31, 2015. The decrease in trade receivables (current and long-term) in 2017 compared with 2016 was mainly due to a decrease in service and equipment revenues. The increase in trade receivables (current and long-term) in 2016 compared with 2015 was mainly due to an increase of national roaming and operating operators. The current maturity of long-term receivables as of December 31, 2017 was NIS 523 million, compared with NIS 566 million as of December 31, 2016 and NIS 563 million as of December 31, 2015.

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

Not applicable.

D. TREND INFORMATION

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Set forth below is a description of our contractual cash obligations, in millions of NIS, as of December 31, 2017.

	Total	2018	2019-2020	2021-2022	2023 and Beyond
Long-term debt obligations (including interest)(1)	4,040	760	1,338	954	988
Operating lease obligations	918	275	370	204	69
Purchase obligations	859	436	284	139	-
Total	5,817	1,471	1,992	1,297	1,057

(1) Interest does not include any increase in interest that would be required based on increases in the Israeli CPI.

Application of Critical Accounting Policies and Use of Estimates

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reflected in the consolidated financial statements and accompanying notes, and related disclosure of contingent assets and liabilities. We base our estimates upon past experience, where applicable, various factors, external sources 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 past 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.

Long-lived assets – depreciation

Nature of critical estimate items

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

Assumptions / approach used

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

Effect if different assumptions used

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

Impairment of long-lived assets

Nature of critical estimate items

Finite-lived long-lived assets

At each reporting date, we review finite-lived long-lived assets, principally consisting of property, plant and equipment, spectrum licenses and intangible assets for impairment based on the requirements of International Accounting Standard No. 36, whenever events or changes in circumstances indicate that their carrying values may not be recoverable through the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal. Where it is not possible to estimate the recoverable amount of an individual asset, we group together all of the assets that cannot be tested individually into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"), and estimate the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of value in use and fair value less cost to sell. Value in use is determined by discounting the expected future cash flows, we expect to derive from the asset, using a pre-tax discount rate. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Indefinite-lived intangible assets

Once a year and for the same date, or more frequently if there are indications of impairment, we estimate the recoverable amount of each cash-generating unit that contains goodwill. Cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. We monitor goodwill at operating segments level. As regards cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after adjustment for goodwill, exceeds its recoverable amount.

Assumptions / approach used

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

cash flows attributed to the asset group;

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

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

Effect if different assumptions used

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

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

Change in estimates

During the year ended December 31, 2017 management has updated estimates as follows: Towards the end of the Company's 2G and 3G frequencies (the "Frequencies") original amortization period, the Company's annual depreciation committee examined the estimated useful life of the Frequencies. Based on Company's estimate, the Company will continue to use the Frequencies at least for the next 10 years.

The estimated useful life of the Frequencies was determined in the past according to the period of the Company's cellular license (until 2022).

According to applicable law, the Company's cellular license may be extended for additional 6-year periods, subject to the requirements set in the license. The Company estimates that based on its experience and acquaintance with the communications market in Israel, if current conditions continue, there is high probability that the license will be extended for an additional term of 6 years.

In light of the aforesaid, the estimated useful life of the Frequencies has been re-evaluated for the first time, for an additional period of ten years, starting from the beginning of the second quarter of 2017 and ending in 2028 (instead of 18-20 years ending in 2022, as originally estimated).

In light of the accumulated experience in the Group's operation in connection with internet services and television over the internet services, the Company's annual depreciation committee examined the estimated useful life of certain fixed asset items that are used for these services. Following this examination, the estimated useful life of these items has been re-evaluated for the first time, starting from the beginning of the fourth quarter of 2017 to 3-6 years from their purchase date (instead of 2-3 years, as originally estimated).

The effect of these changes on the consolidated financial statements, in current and future years is as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Subsequently</u>
	<u>NIS millions</u>					
Decrease (Increase) in depreciation expenses	<u>19</u>	<u>33</u>	<u>17</u>	<u>5</u>	<u>6</u>	<u>(80)</u>

Accounts receivable - bad debt and allowance for doubtful accounts

Nature of critical estimate items

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

Assumptions / approach used

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

Effect if different assumptions used

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

Provisions for contingent liabilities

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

Uncertain tax positions

When assessing amounts of current and deferred taxes, we take into consideration the effect of the uncertainty that our tax positions will be accepted and the effect of incurring any additional tax and interest expenses. We are of the opinion that the cumulative tax liability is fair for all the years in respect of which final tax assessments have not yet been received, based on an analysis of a number of matters including interpretations of tax laws and the our past experience. This assessment is based on estimates and assumptions that may also include assessments and exercising judgment regarding future events. It is possible that new information will become known in future periods that will require us to change our estimate regarding the tax liability that was recognized, and any such changes will be expensed immediately in that period.

New Accounting Standards Not Yet Adopted

For details regarding new accounting standards not yet adopted see note 3-R to our financial statements included elsewhere in this report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. DIRECTORS AND SENIOR MANAGEMENT**

The following table sets forth information regarding our directors, executive officers and other key employees as of December 31, 2017:

Name	Age	Position
Ami Erel (2), (3), (4)	71	Chairman of the Board
Mauricio Wior (2)	61	Vice Chairman of the Board
Shlomo Waxe (1), (2), (4)	72	Independent Director
Ephraim Kunda (1), (2), (4), (5)	65	Independent Director
Joseph Barnea (1), (2), (3), (4), (5)	82	Independent / External Director
Ronit Baytel (1), (2), (5)	50	Independent / External Director
Nir Sztern	47	President and Chief Executive Officer
Shlomi Fruhling	45	Chief Financial Officer
Yoni Sabag	45	Vice President of Marketing
Ron Shvili	50	Chief Technology Officer
Nadav Amsalem*	44	Vice President of Business Customers
Sharon Amit	51	Vice President of Human Resources
Amos Maor	54	Vice President of Sales and Service
Liat Menahemi Stadler	51	Vice President of Legal Affairs and Corporate Secretary
Teimuraz Romashvili	39	Vice President of Pre Paid Activity
Yaniv Gruenwald	43	Vice President of Television and Content
Ronnen Shles	50	Controller

(1) Member of our Audit Committee.

(2) Member of our Analysis Committee.

(3) Member of our Option Committee.

(4) Member of our Security Committee.

(5) Member of our compensation Committee.

*Mr. Nadav Amsalem was appointed as our Vice President of Business Customers in July 2017. Mr. Amsalem replaced Ms. Keren Shtevy who resigned from office.

Ami Erel has served as Chairman of our Board of Directors since 2005. From 2014 to 2017 Mr. Erel provided consulting services to Discount Investment Corporation Ltd. (where he served as President and Chief Executive Officer from 2001 to 2013). Until 2011, Mr. Erel served a period as Chief Executive Officer and a period as Chairman of the board of directors. From 1997 to 1999, he served as President and Chief Executive Officer of Bezeq. From 2011 to 2016, Mr. Erel also served as Deputy Chairman of the Board of Directors of ADAMA Agricultural Solutions Ltd. (where he served from 2006 as a director and later as Chairman of the Board of Directors). Mr. Erel also serves as a director of Elron Electronic Industries Ltd. (where he served from 1999 to 2001 as President and until January 2007 as Chairman of the Board of Directors), Knafaim Holdings Ltd. and Dan hotels Ltd. Mr. Erel served as the chairman of the executive committee of the Manufacturers Association of Israel from 2005 to 2009 and from 2009 to 2011 he served as the chairman of the Israel Export & International Cooperation Institute. Mr. Erel holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology.

Mauricio Wior has served as our Vice Chairman of our Board of Directors since January 2017. In January 2018, 2.5% of our outstanding share capital held by Koor was transferred (through a lending transaction) to a company controlled by Mr. Wior, following which Mr. Wior is considered joint controlling shareholder with Koor. Mr. Wior has served as Deputy Chairman of the Board of Directors of Shufersal Ltd. and of Israil Aviation and Tourism Ltd. since 2016, a member of the board of directors of IRSA Inversiones y Representaciones Sociedad Anónima, DIC's controlling shareholder, since 2006, a member of the board of directors of Banco Hipotecario in Argentina, a substitute director in DIC, the Company's indirect controlling shareholder, since 2014 and a member of the board of directors of additional private companies in Argentina. From 1990 to 2005, Mr. Wior served as the Chairman and CEO of cellular operators in Argentina, Uruguay, Chile, Ecuador, Peru and Venezuela, and as a senior executive of BellSouth Telecommunications, LLC. Mr. Wior holds a B.A. in finance and accounting and an M.B.A. in Business Management, both from Tel Aviv University.

Shlomo Waxe has served as a member of our Board of Directors since 2006. Mr. Waxe has served as Director General of the Israel Association of Electronics and Software Industries from 2006 to 2016. Until 2016 he served as a member of the board of the Israeli Standards Institute. From 2002 to 2005, he worked in the field of communications management and consultancy. From 1999 to 2001, he served as Chief Executive Officer of Zeevi Communications Ltd. From 1997 to 1999, he served as a consultant to cellular communications projects in Sao Paulo, Brazil and in Northeast Brazil. From 1993 to 1997, he served as the Director General of Israel's Ministry of Communications. From 1990 to 1993, he served as commanding officer of the signal, electronics and computer corps of the Israel Defense Forces and he is a retired brigadier general. Mr. Waxe also serves as a member of the boards of directors of C. Mer Industries Ltd. and until 2009, served as a board member of Shrem, Fudim – Technologies Ltd. and until May 2012, served as a board member of Tambour Ltd. Mr. Waxe holds a B.A. in political science from the University of Haifa.

Ephraim Kunda has served as a member of our Board of Directors since 2010. Mr. Kunda is an Israeli businessman and is the owner and managing director of a private consulting company that provides economic consultancy and business mediation services. From 2007 to 2010, Mr. Kunda has served as the Chairman of the board of directors and since 2010 as a member of the board of directors of Ravad Ltd., a public real estate investment company. From 2003 to 2007, Mr. Kunda served as an external director of Property and Building Corporation Ltd., a public real estate company controlled by DIC. Mr. Kunda holds a B.A. in Economics from Tel Aviv University.

Joseph Barnea has served as a member of our Board of Directors since 2007. Mr. Barnea is a retired businessman. From 2012 to 2015, Mr. Barnea served as an external director of Imagesat International Ltd. He served as the Chief Executive Officer of Oxygen & Argon Works Ltd. from 1987 to 2005 and continued to serve as a member of its management until 2006. From 1985 to 1987, he served as the Chief Executive Officer of Telkoor Ltd. From 1980 to 1985, he served as a Vice President of Elscint Medical Imaging Ltd. Mr. Barnea is a member of the executive committee of the Israeli Industrialists Association and until 2007 he served as the Chairman of its Chemistry and Environment Association. From 2004 to 2009 Mr. Barnea served as a member of the board of the Israeli Export & International Cooperation Institute, from 2005 to 2014 he served as a member of the standard committee of the Israeli Standards Institute and prior to that, as a member of its board. From 2002 to 2004 he served first as President and then as Chairman of the International Oxygen Manufacturers Association (IOMA) USA. He served as Deputy Commander of the signal, electronics and computer corps of the Israeli Defense Forces. Mr. Barnea holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology and an M.Sc. in electrical engineering from Columbia University, New York, USA.

Ronit Baytel has served as a member of our Board of Directors since 2007. Since December 2017 Ms. Baytel served as a financial consultant at an Israeli financial consulting firm. From 2005 to 2016, Ms. Baytel served as a director in the finance department of Ormat Technologies, Inc., a company listed on the NYSE, in charge of SOX internal controls in the preparation of financial statements and tax and special projects. From 1998 to 2005 she served as senior manager at Kesselman & Kesselman, a certified public accountants firm in Israel, which is a member of the international PriceWaterhouseCoopers Accountants firm. Ms. Baytel is a certified public accountant and holds a B.A. in economics and accountancy from Tel Aviv University and an M.B.A. from the Hebrew University.

Nir Sztern has served as our Chief Executive Officer since 2012. Mr. Sztern served as the chief executive officer of Netvision, from 2010 to 2011. From 2008 to 2010 he served as deputy CEO of Pelephone, and from 2002 to 2008 as Pelephone's vice president of marketing. From 2001 to 2002 he served as vice president of marketing and sales of Barak 013 Ltd. or Barak, a long distance operator (which was later merged into Netvision) and from 1999-2001 as head of Barak's marketing department. From 1994 to 1999 Mr. Sztern served as head of our private sector marketing department. Mr. Sztern holds a B.A. in economics and management from the Tel Aviv University and an M.B.A. in business administration, from the Israeli branch of Manchester University.

Shlomi Fruhling has served as our Chief Financial Officer since September 2013. Mr. Fruhling has served as a vice president of DIC from 2012. From 2008 to 2011 he served as VP Strategy and Finance of 013 Netvision Ltd. From 2005 to 2008 Mr. Fruhling has served as head economist of DIC. Mr. Fruhling holds a B.A. in economics and business administration from the Tel-Aviv Management College.

Yoni Sabag has served as our Vice President of Marketing since 2011. Mr. Sabag has served as head of our private sector marketing department, in charge of the private and small business sectors from 2006 to March 2011. From 2003 to 2006, he served as a director of marketing for the private sector. Mr. Sabag has been a member of our marketing department since 2000.

Ron Shvili has served as our Chief Technologies Officer since November 2013. Mr. Shvili has been an Entrepreneur in the field of cyber security since the beginning of 2013, when he retired from the Israeli Defense Forces, or IDF. From 1990 to 2012 Mr. Shvili held various key managerial and technological positions in the IDF and the Israeli Ministry of Defense. Mr. Shvili holds B.Sc and M.Sc in Electrical engineering from Tel-Aviv University.

Nadav Amsalem has served as our Vice President of Business Customers since July 2017. Mr. Amsalem served as head of the strategic customers department in our business customers division, in charge of the major corporate business customers from 2014. From 2011 to 2014, he served as the director of strategic landline customers and major business customers sector. Mr. Amsalem has been a member of our business customer's division since 2006.

Sharon Amit has served as our Vice President of Human Resources since 2011. Ms. Amit has served as Netvision's VP of Human Resources from 2009 to November 2011. She served as VP of Human Resources of Tikshoov Call Center from 2006 to 2009, of Bynat Computer Communications from 2002 to 2006 and of ADC Israel from 1996 to 2002. Ms. Amit holds a B.A. in English literature and East Asia science, from the Hebrew University in Jerusalem and an M.A. in labor studies from the Tel Aviv University.

Amos Maor has served as our Vice President of Sales and Service as of 2012. Mr. Maor has served as our Vice President of Operations and Supply Chain from 2004 to January 2011. From 2002 to 2004, Mr. Maor served as manager of Supply Chain of Elite Industries Ltd., and from 2000 to 2002, he served as manager of Elite's sales division headquarters. Mr. Maor holds a B.Sc. in industry and management engineering from the Technion, Israel Institute of Technology.

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

Teimuraz Romashvili has served as our Vice President of Pre Paid Activity since 2011. Mr. Romashvili reports to the Company's VP Sales and Service. Mr. Romashvili has served as Netvision's head of pre-paid and international activity from 2007 to October 2011. From 2005 to 2007 he served as head of pre-paid activity in Barak and prior to that served in a variety of positions in Barak. Mr. Romashvili holds a B.A. in economics and management from the Economics Academy in Kiev, Ukraine.

Yaniv Gruenwald has served as our Vice President of television and content since August 2014. Mr. Gruenwald has served as Vice President of television and content of Netvision since 2012 and as Chief Technology Officer of Netvision from 2010 to 2011. From 2008 to 2010, he served as a Chief Technology Officer of wire-line & broadband division of Partner Communications Ltd., and from 2005 to 2008 he served as Partner's director of product development. Mr. Gruenwald Holds a B.A. in business administration from the Peres Academic Center and an Executive MBA from Tel-Aviv University.

Ronnen Shles has served as our Controller from January 2015. From 2007 to 2014, Mr. Shles served as head of the accounting unit in our financial control division. Mr. Shles is a certified public accountant and holds a B.A. in accounting and business administration from the College of Management.

On March 22, 2018, our Board of Directors appointed Mr. Sholem Lapidot as a member of our board of directors, effective immediately, for an initial term that will expire at our next annual shareholders meeting, at which time, his re-election for an additional term, if nominated by our Board of Directors, will be brought for shareholders' approval.

Sholem Lapidot serves as CEO of DIC, our indirect controlling shareholder, and of IDB. Also serves as a member of the board of directors of IDB and DIC, chairman of the board of directors of Modi'in - Energy Management (1992) Ltd., substitute director at Elron Electronic Industries Ltd., committee member at the IDB Fund and a member of the board of directors of additional private companies owned by DIC and IDB. From 2015 to 2016, Mr. Lapidot served as a member of the board of directors of ADAMA Agricultural Solutions Ltd. and from 2009 to 2013 as the CEO and member of the board of directors of CLADD S.A. and from 2008 to 2012 as a member of the board of directors of Australtex S.A. Mr. Lapidot has studied Rabbinical Studies.

B. COMPENSATION

Compensation Policy

Our compensation policy, described below, was approved by our compensation committee and board of directors and subsequently approved by our shareholders in January 2017 and shall be in effect for a period of three years therefrom.

Preamble

The Company's compensation policy is designed to align executive officer compensation with the Company's performance and to reflect best practices in executive officer compensation. The Company has created a pay-for-performance policy that is designed to align executive officer and shareholder interests by reinforcing the long-term growth, value creation and sustainability of the Company. The structure is designed to encourage a high degree of execution and rewards individuals for the achievement of objectives that ultimately create shareholder value. The structure is further designed to prevent executive officers from taking unnecessary risks in order to enlarge their compensation. The objective of the compensation policy is to attract, motivate and retain a talented management team that will continue providing unique solutions in a highly competitive and rapidly changing marketplace and deliver long-term value for all shareholders.

The Company's executive officer compensation policy refers to three main elements of compensation that include base salary, cash bonus compensation and equity-based compensation. The compensation package for each of our executive officers will include these three components.

The Compensation Committee and Board of Directors approve, periodically review and oversee the application of the Company's executive officer compensation programs.

Our Board of Directors monitors our executive officers' compensation structure annually in order to ensure that target total compensation for our executive officers is appropriate, considering our peer companies, overall company performance, individual executive officer's scope and size of responsibilities and performance during the previous year.

The policy will apply to any compensation determined after approval by the Company's shareholders and will not, and is not intended to, apply to or deemed to amend employment and compensation terms of executive officers existing prior to the adoption of this compensation policy by the Company.

The compensation policy does not grant any rights to the Company's directors and executive officers, and the adoption of the compensation policy does not grant any of the Company's Directors and executive officers a right to receive any elements of compensation set forth in the compensation policy. The elements of compensation to which a director or executive officer will be entitled, will be exclusively those that are determined specifically in relation to him or her in accordance with the requirements of the Israeli Companies Law, 1999, or the Companies Law, and the regulations promulgated thereunder.

Executive Officer Pay for Performance

The Company's compensation philosophy is to encourage our executive officers to make sound decisions and drive long-term value creation for our shareholders. For our executive officers, we believe that in order to increase shareholder value, our compensation structure must:

- Have a substantial portion of pay "at risk" (i.e., pay that is not guaranteed); and
- Link "at risk" pay to performance objectives that are directly aligned to the Company's short and long-term performance objectives as well as strategic initiatives.

Effectively aligning the objectives of executive officer compensation with the interests of shareholders requires adopting compensation programs that motivate leadership to drive company performance to achieve sustainable top performance. To that end, our Board of Directors, at the recommendation of our Compensation committee, will establish cash and equity-based compensation plans with targets focused on rewarding individuals for strong company performance. In addition, because we believe that individuals should be rewarded based on the results of their contributions, we also consider individual performance in awarding incentive compensation.

Compensation Philosophy and Strategy

Our Board, at the recommendation of our Compensation Committee, has defined the following key objectives of our compensation programs for executive officers:

- Drive the Company's overall business strategy and results as they relate to long-term value creation;
- Pay for performance by linking total compensation to defined performance objectives, both at the Company level and for each executive officer individually;
- Attract and retain key executive officers by providing competitive total compensation opportunities, considering the Company's size, nature of operations and marketplace, while avoiding unnecessary risk taking by executive officers; and
- Align executive officer and investor interests by focusing executive officer behavior on driving long-term value creation.

Compensation Risk Assessment

In designing our compensation policy, we reviewed our compensation policies and practices in order to determine whether they create risks that are likely to have a material adverse effect on the Company. We concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on the Company. Among the elements evaluated were the following:

- The multiple elements of our compensation packages for executive officers, including base salary, annual cash incentive and equity-based compensation program which vest over a number of years and provide a balance of short-term and long-term compensations with fixed and variable components that promote the long-term sustainability of our business;
- Equity-based compensation for our executive officers aligns the interests of the executive officers with those of our shareholders;
- Independent oversight by the Compensation Committee;
- Inclusion of claw-back provisions in the event of a material restatement of our financial statements for our financial performance based compensations;
- Effective management processes for developing strategic and annual work plans, and strong internal controls over financial reporting;
- The structure of our Annual Cash Bonus (as defined hereinafter) and equity-based compensation, which is based on a number of different performance measures to avoid employees placing undue emphasis on any particular performance measure at the expense of other aspects of the business; and
- The cap on our executive officers' Annual Cash Bonus and equity-based compensation, commensurable to objectives which do not motivate increased risk taking.

Compensation Principles

Peer Group Analysis. We use benchmarking as one of the tools for setting and reviewing our compensation system. To attract and retain our key executive officers, our goal is to provide compensation opportunities at competitive market terms. The Company's peer group is made up of a minimum of 10 companies, including telecommunications companies and companies operating in other markets whose turnover are similar to the Company's, as recommended by the Company's independent compensation consultant. When using the benchmarking, our intent is to create a compensation structure that generally targets the median of our selected peer companies, but also allows total compensation to exceed the median when warranted due to company performance and/or individual experience, responsibilities and exceptional performance.

Additional Considerations. When deciding on or periodically reviewing each executive officer's total compensation, our Compensation Committee and Board of Directors consider the following: (1) each executive officer's individual attributes, including his/her education, skills, expertise, professional experience and achievements, the executive's role, his/her areas of responsibility and previous compensation arrangements (when applicable); (2) the ratio between our executive officer total target compensation and the total compensation of the rest of the company's employees and the Subcontractors' Employees engaged by the Company (as such term is defined under the Companies Law), and specifically the ratio to the average total compensation and the median total compensation of such employees, and the influence of those gaps on the working relations in the Company, taking into consideration the Company's size, nature of operations, employees composition, marketplace and comparative data. Our Compensation Committee and Board of Directors considered these ratios in the Company and determined that they do not adversely influence the working relations in the Company.

Caps and limitations. Our compensation policy sets the target total compensation comprising of the base salary, a 100% performance score for the Annual Cash Bonus award and maximum equity-based compensation for our executive officers, as well as a cap for the Special Cash Bonus, as detailed hereunder. Our Compensation Committee and Board decide on each executive officer's total actual compensation which is limited by the target compensation, based on performance metrics as detailed hereunder. Our Board will not reduce the compensation package approved or any of its components, and will not place additional limitations, not detailed in this compensation policy, other than in unusual circumstances according to our Compensation Committee's and Board of Directors' discretion.

Compensation Recovery ("Claw back"). If our financial statements are materially restated within 4 years from publication thereof (other than restatement required due to changes in financial reporting standards), then the executive officers will repay prior payouts, in an amount of the excess over what the executive officer would have received according to the restated financial statements.

Change in Compensation at CEO Discretion. A change in the compensation package of an executive officer who reports to the CEO, which results in an increase of such executive officer's total compensation package by no more than 2.5%, may be approved solely by the CEO, provided all elements of compensation of such executive officer will continue to meet the requirements of the compensation policy.

Overview of Executive officer Compensation –the Elements of Pay

Elements of Executive officer Compensation. In line with the philosophy described above, the following elements compose the compensation of our executive officers:

Base salary;

An Annual Cash Bonus award and possible Special Cash Bonuses;
Equity-based compensation awards; and
Termination arrangements.

Compensation Mix. Base salary, Annual Cash Bonus and equity-based compensation awards make up the main elements of our executive officers' total compensation package. The Company strives to ensure that a substantial portion of each executive officer's total compensation is comprised of "at-risk" pay, with the targeted weight of each element out of the total compensation package of an executive officer being as follows:

base salary – 30%-50% for our CEO and 40%-60% for other executive officers;
Annual Cash Bonus - 25%-45% for our CEO and 20%-40% for other executive officers; and
equity-based compensation* - 15%-45% for our CEO and 10%-40% for other executive officers.

*calculated per year, based on fair value at date of grant, with the value of the options amortized as compensation over the vesting period.

The ranges stated above represent the targeted compensation mix desired by the Company; however, the actual ratio between fixed and variable elements may vary based on performance. For example, in a year with no or limited Annual Cash Bonus, the percentage of base salary out of total compensation may be higher than stated above. The ranges above do not consider any Special Cash Bonus that our Compensation Committee and Board of Directors (and shareholders – in relation to our CEO) may decide to grant to an executive officer, as detailed under Special Cash Bonus below.

Our cash bonus and equity-based compensation awards are considered "at-risk" pay because they are not guaranteed and the recipients of the Annual Cash Bonus awards must achieve specific performance objectives at corporate and individual levels to receive any payment.

Total compensation cap. The Company's CEO's total annual compensation shall not exceed NIS 6 million, out of which the fixed element shall not exceed NIS 3 million. Each of the Company's other executive officers' total annual compensation shall not exceed NIS 3.6 million, out of which the fixed element shall not exceed NIS 1.8 million.*

* The value of equity-based awards refers to their value at the date of grant (in accordance with acceptable accounting principles) per each vesting annum (calculated on a linear basis).

Base Salary. The base salary varies between executive officers, and is individually determined according to past performance, educational background, prior business experience, qualifications, role and the business responsibilities of the executive officer. Since a competitive base salary is essential to our ability to attract and retain highly skilled professionals, we will seek to establish a base salary that is competitive with the base salaries paid to executive officers of a peer group of companies.

Accordingly, base salary shall generally target the 25%-75% percentiles of each executive officer's peer group salary, taking into consideration the aforementioned individual characteristics, as shall be reflected in a peer group analysis conducted by an independent consultant and reviewed by our Compensation Committee and Board of Directors, when such salary is set and/or updated.

The base salary may be linked to the Israeli Consumer Price Index, or CPI.

Benefits and Perquisites. The following benefits and perquisites may be granted to the executive officers in order, among other things, to comply with legal requirements:

Vacation of up to 30 days per annum;
Sick days of up to 30 days per annum;
Convalescence pay equivalent to up to 10 days per annum;
Monthly remuneration for an education fund, as allowed by applicable law;
Contribution on behalf of the executive officer to a manager's insurance policy or a pension fund, as allowed by applicable law; and
Contribution on behalf of the executive officer towards work disability insurance, as allowed by applicable law.

We may offer additional benefits and perquisites to the executive officers, which will be comparable to customary market practices, such as: company cellular phone and the costs of the use thereof; company car benefits; gifts for holidays and personal occasions (such as nuptials or birth of a child or grandchild), or for special projects; medical insurance, annual medical examination, professional associations membership fees etc., including tax gross-ups; provided however, that such additional benefits and perquisites shall be determined in accordance with our policies and procedures and with reference to the practice in peer group companies. The value of such additional benefits shall not exceed 30% of the executive officer's base salary.

Annual Cash Bonus. The Compensation Committee sets the annual cash bonus performance objectives and target annual bonus for each executive officer, at the start of each year, which are then reviewed and approved by the Board ("Annual Cash Bonus"). For our CEO, these objectives are based on the Company's annual work plan and objectives. For our other executive officers, these objectives are based on the Company's annual work plan and objectives at the corporate level and key strategic objectives each executive officer is expected to achieve during that year at the individual level, based on each executive officer's position and scope of responsibilities.

The Annual Cash Bonus payout is determined based on actual performance of the Company and the executive officer in question (after elimination of material one time and reevaluation influences), in each of the performance objectives set for each executive officer, measured on a performance matrix. The results for each group of objectives (as detailed hereunder) are then combined into one performance score, based on the weight each performance objective was given.

Corporate performance objectives may include EBITDA,* net income, free cash flow*, Net Promoter Score, or NPS (indicating our subscribers' satisfaction with our services) and other Company performance objectives which the Company decides to focus on in a specific year. Our CEO's corporate performance objectives were determined by our shareholders general meeting to be the Company's EBITDA target for the relevant year.** Corporate performance objectives weigh between 30% to 50% of the overall performance score of each executive officer and 80% for our CEO. In extreme cases, such as major changes in our market leading to annual work plan or budget adjustments, our Compensation Committee and Board of Directors may update the objectives to match such changes, during the first half of the relevant year.

Quantitative individual performance objectives may include specific NPS, the budget for the unit relevant to the executive officer, revenues from sales by the unit, recruiting subscribers by the unit and quality of network. These objectives weigh between 30% and 50% of the overall performance score of each executive officer.

Qualitative individual performance objectives may include corporate governance, risk management, leadership, response to major business changes, executing special projects, as per the CEO's evaluation of each executive officer and as per the evaluation of the CEO by the Compensation Committee and the Board of Directors. This component will weigh up to 20% of the overall performance score of each executive officer (including the CEO).

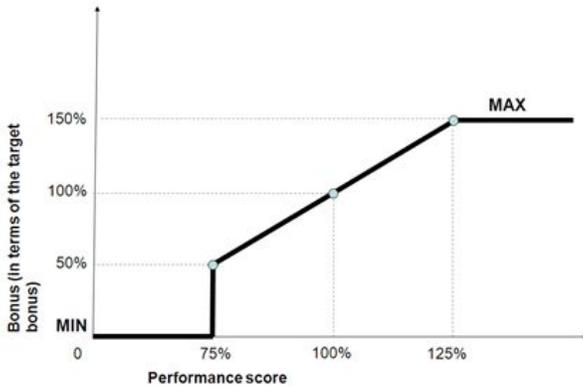
* EBITDA and Free Cash Flow are non-IFRS measures. For a definition of EBITDA, see footnote (5) under "Item 5. Operating and financial review and prospects – Results of operations – Comparison of 2015, 2016 and 2017". For a definition of Free Cash Flow see under "Item 5. Operating and financial review and prospects – A. Operating results – Overview – General".

** Our CEO's performance score of his performance objectives in 2017 is 92.3%.

Any payout of Annual Cash Bonuses for any year will be subject to an additional minimum requirement of achieving an annual EBITDA of not less than 75% of the Company's EBITDA for the previous year. We have met this threshold. Such minimum requirements are in no way indicative of the Company's expectations or estimations for any fiscal year, and are provided in order to assure shareholders that no Annual Cash Bonuses will be paid to office holders according to the Compensation Policy in years when the Company's performance has deteriorated materially compared to the prior year.

Our Compensation policy sets a minimal threshold score of 75% of the combined target performance and a target Annual Cash Bonus of 10 monthly salaries for our CEO and 5-7 monthly salaries for our other executive officers ("Target Bonus") for the target performance objectives, in line with each executive officer's capability to influence the Company's results of operations. Performance below the minimum threshold results in no payout. Performance score under the combined performance target and above the threshold results in a linear reduction in which a 5% reduction of the combined performance score represents a reduction of 10% of the Target Bonus (i.e. down to 50% of the Target Bonus for a performance score of 75% of the combined performance target). Performance score above the combined target performance rewards the executive officer with a linear addition to the Target Bonus in which a 5% addition of the combined performance score represents an addition of 10% to the Target Bonus and up to a maximum of 150% of the Target Bonus.

Following is a graphic representation of the Annual Cash Bonus our executive officers may be entitled to:



Notwithstanding the aforesaid, for our executive officers, except the CEO, the Compensation Committee and the Board of Directors will have full discretion to determine the final Annual Cash Bonus payout based, among other things, on the Annual Cash Bonus performance score and/or additional considerations relevant to the performance and objectives of the Company and the relevant executive officer, including qualitative criteria.

Subject to the conditions and limitations set above, an executive officer who ceases to perform his/her role as an executive officer but has provided services to the company for at least 6 months of the relevant year, will be entitled to receive an Annual Cash Bonus for that year, relative to the period in which he/she performed their duties during the relevant year. An executive officer who provides services to the Company for less than 6 months during the relevant year of cessation, will not be entitled to an Annual Cash Bonus for that year. An executive officer who joins the Company during the relevant year, will be entitled to a portion of the Annual Cash Bonus, relative to the period in which he/she performed their duties during the relevant year and provided such period is at least 6 month long.

The aggregate maximum payout of all of the executive officers' Annual Cash Bonuses per annum shall not exceed 2% of the EBITDA for that calendar year (after elimination of material one time and reevaluation influences). In case of a positive EBITDA but negative net profit in a particular year, the Compensation Committee and the Board of Directors of the Company shall examine the circumstances leading to a negative net profit and shall consider reducing or cancelling the Annual Cash Bonus for that year.

Special Cash Bonus. The Company may grant, subject to approvals required by law, a special bonus to one or more executive officers that have shown a special contribution, considerable efforts or special achievements, in relation to a unique or extraordinary business activity or other special circumstances, in advancement of the Company's goals (the "Special Cash Bonus"). The Special Cash Bonus is a separate bonus from the Annual Cash Bonus mentioned above. The Special Cash Bonus will be determined by quantitative and/or qualitative parameters, and while considering the personal contribution of the executive officer. The maximum payout for the Special Cash Bonus during the term of the Compensation Policy with respect to any executive officer will be the greater of: (a) 9 base salaries for our CEO and 7 base salaries for our other executive officers, or (b) 150% of the Target Bonus minus any Annual Cash Bonus payout for the relevant year. Any Special Cash Bonus with respect to the CEO will require approval by our shareholders' meeting in addition to the Compensation Committee and board of directors' approval. The aggregate maximum payout cap for Annual Cash Bonuses of all of the executive officers, as described in the previous section of this policy, shall apply also to the aggregate payout of the Special Cash Bonus of all of the executive officers, so that the aforesaid cap shall apply to the aggregate payout of all cash bonuses under this policy.

Equity-based compensation Plan. Under the Company's 2015 Share Incentive Plan or under any equity-based compensation plan adopted by the Company in the future, the Compensation Committee and Board may resolve to grant, from time to time, options or restricted share units ("RSUs"), or other instruments of equity-based compensation, to our executive officers.

The decision on equity-based compensation grant shall take into consideration each executive officer's position, scope of responsibilities, as well as its past performance and contribution to the Company.

In order to align executive officer and investor interests for creation of long term value, equity-based awards will include the following terms:

Awards will vest linearly over a minimum period of three years beginning on the first anniversary of the grant date. The terms of such equity-based awards may include provision for acceleration of vesting in certain events, such as in the event of a merger, a consolidation, a sale of all or substantially all of our consolidated assets, change of controlling shareholder, or the sale or other disposition of all or substantially all of our outstanding shares.

The exercise price of equity-based awards will be set so as to induce an incentive for long term value creation, but in any case, not lower than the higher of 5% above the average market price of the Company's share during the 30 day period preceding the date of grant, and the market price of the Company's share at the end of the trading day preceding the date of grant, and will be subject to customary adjustments including for dividend distributions.

The value of equity-based awards at the date of grant (in accordance with acceptable accounting principles) per each vesting annum (calculated on a linear basis), in addition to the Target Bonus (whether or not actually paid), will not exceed 70% of our CEO's and 60% of our other executive officers' total cost of employment in that calendar year. We believe a grant date cap is more appropriate than an exercise date cap as it better aligns long term value creation objectives.

The annual exercise of shares reserved for issuance upon the exercise of options of all the Company's executive officers will not dilute the Company's shareholders by more than 2% (in regards to option plans which contain a 'net exercise mechanism') of the Company's outstanding share capital for the year in which such options may be exercised. In addition, our board of directors committed to DIC that the Company will not issue options or shares pursuant to executive officers or employees compensation, which may lead to a dilution of the Company's shareholders by more than 0.5% of the Company's outstanding share capital for the year in which such options may be exercised.

Termination and Retirement. Our executive officers may be entitled to up to a 3 months advance notice period upon termination of their employment with the Company if worked in the Company for up to 3 years, or up to 6 month advance notice period if worked in the Company for over three years and will be required to provide the Company with the same notice when they initiate retirement from their position. The executive officer is obligated to work during such period and Company may decide, at its sole discretion, to waive actual work during that period, in whole or in part. Under special circumstances, the Company may, as approved by our Compensation Committee and Board of directors, grant an executive officer who worked in the Company for a minimum of two years and was not terminated for cause, a termination bonus equal to up to 3 monthly salaries of the executive officer, including benefits or an adjustment period of up to 3 month during which the executive officer will be entitled to continue to enjoy all compensation and benefits. In case the executive officer worked in the Company for a minimum period of five years, such termination bonus or adjustment period, may be up to 6 monthly salaries or 6 months, respectively. In deciding on the grant of a termination bonus or the like, our Compensation Committee and Board of Directors shall take into consideration the executive officer's term of employment, his/her compensation during his/her employment with the Company, the Company's performance during that period, the contribution of the executive officer to achieving the Company's objectives and increasing its profits and the circumstances of termination.

The Company may approve, upon termination of an executive officer's employment, amendment of the terms in connection with the executive officer's equity-based compensation grants, such as extending the period for exercise of equity-based compensation upon termination, for longer periods than as set forth in the applicable plan, enabling acceleration of vesting of unvested equity-based compensation, while considering the same considerations stated above for a termination bonus.

The Company will not pay its executive officers any non-competition fees for post termination periods, although executive officers may be bound by post termination non-competition obligations.

Compensation for our directors

All directors (other than Executive Directors, as defined hereinafter), including external directors, independent directors, directors who are affiliated with our controlling shareholder or nominated or appointed by our controlling shareholders ("Controlling Shareholder Directors") and other directors, will be entitled to a directors fees in accordance with the amounts of statutory compensation to an external director of a dual-listed company allowed by the applicable Israeli law and regulations (as shall be updated from time to time and up to the maximum amounts allowed) and will not receive cash bonuses or equity-based compensation. Such directors' fees in relation to Controlling Shareholder Directors may be paid either directly to the director or to the controlling shareholder through a management agreement (if such agreement is in effect).

Our Controlling Shareholder Directors who hold an active role in the Company ("Executive Directors"), which may include the chairman of the Board of Directors, may be entitled to compensation from the Company (instead of the above directors fees) which may include an annual fixed payment and equity-based compensation. The provisions regarding our CEO's base salary and equity-based compensation detailed above in this policy, shall apply *mutatis mutandis* to the annual fixed payment and equity-based compensation such Executive Directors shall receive for their services, assuming a full time position as our Executive Directors. A part-time position may entitle our Executive Directors to a corresponding portion of annual fixed payment and equity-based compensation. Our Executive Directors are not entitled to receive a cash bonus.

Indemnification

Exemption from liability and liability insurance policy. Our articles of association allow us to exempt in advance a director and executive officer, or office holders, from liability to the company, in whole or in part, for a breach of his or her duty of care (except in connection with distributions) and we may enter into a contract for insurance against liability of any of our office holders with respect to certain breaches of his/her duties and certain financial liabilities and litigation expenses.

We maintain a liability insurance policy for the benefit of our office holders. Our directors and executive officers' coverage will not exceed US\$100 million per claim in the aggregate, and additional reasonable expenses in connection with defending lawsuits, and the premium will not exceed US\$ 1 million per annum in any renewal or extension or substitution of the policy and the deductible will not exceed US\$ 0.5 million per claim. Any such renewal or extension or substitution of the liability insurance policy for the benefit of our office holders (including those who are or are related to controlling shareholders or in respect of whom our controlling shareholders have a personal interest, who shall be insured under identical terms) does not require a separate approval of the Company's shareholders, in addition to the approval of this compensation policy (which in itself requires approval once every three years) if our compensation committee resolves that such renewal or extension or substitution upholds the limitations set above.

Indemnification. Our articles of association provide that we may indemnify our office holders against certain financial liability and litigation expenses. We have undertaken to indemnify our office holders for certain events listed in the indemnification letters given to them. Excluding reasonable litigation expenses, as noted above, the aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification letters is limited to the amounts we receive from our insurance policy plus 30% of our shareholders' equity as of December 31, 2001, or NIS 486 million, and to be adjusted by the Israeli CPI. The approval of the compensation policy by our shareholders shall not be considered as approval of the indemnification amount to the Company's office holders (over the amounts received from the Company's insurance policy).

The above exemption, indemnification and insurance coverage, are subject to the limitations set in the Companies Law.

Executive Officer and Director Compensation

The aggregate direct compensation we paid to all our executive officers and directors as a group (17 persons) for 2017 was approximately NIS 14.3 million, of which approximately NIS 2.1 million was set aside or accrued to provide for pension, retirement, severance or similar benefits. These amounts do not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses and benefits commonly reimbursed or paid by companies in Israel. In addition, in 2017 we recorded the sum of approximately NIS 1.4 million, as a compensation cost related to the options granted to all our executive officers under our share incentive plans. See "6. Directors, Senior Management and Employees – E. Share Ownership – Share Incentive Plans". We pay our executive officers an annual bonus based on our overall performance and individual performance, in accordance and subject to the provisions of our compensation policy (described above). For 2017, our compensation committee and board of directors resolved to pay our executive officers (excluding our CEO) an Annual Cash Bonus and Special Cash Bonus in an aggregate sum of approximately NIS 5.1 million and approximately NIS 2.0 million to Mr. Sztern, our CEO (including Mr. Sztern's Special Cash Bonus, which was approved by our shareholders and after Mr. Sztern waived 10% of his Annual Cash Bonus), according to our compensation policy.

The table below reflects the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2017. We refer to the five individuals for whom disclosure is provided herein as our "Covered Executives." All amounts reported in the table are in terms of cost to the Company, as recognized in our financial statements for the year ended December 31, 2017, which includes compensation paid or to be paid to such Covered Executive following the end of the year in respect of services provided during the year. Each of the Covered Employees was covered by our D&O liability insurance policy and was entitled to indemnification and exculpation in accordance with applicable law and our articles of association. The amounts set forth in the table below are given in thousands of New Israeli Shekels (NIS).

Name and Principal Position ⁽¹⁾	Salary Cost ⁽²⁾	Bonus ⁽³⁾	Equity-Based Compensation ⁽⁴⁾	Total
Nir Sztern, President and Chief Executive Officer	2,014	2,048	542	4,604
Shlomi Fruhling, Chief Financial Officer	1,193	870	92	2,155
Liat Menahemi Stadler Vice President of Legal Affairs and Corporate Secretary	1,283	668	92	2,043
Ron Shvili, Chief Technology Officer	1,046	626	92	1,764
Amos Maor, VP Sales and Service	1,058	565	92	1,715

- (1) Unless otherwise indicated herein, all Covered Executives are or were employed on a full-time (100)% basis.
- (2) Salary cost includes the Covered Executive's gross salary plus payment of social benefits made by the Company on behalf of such Covered Executive. Such benefits may include, to the extent applicable to the Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers' Life Insurance Policy), education funds (referred to in Hebrew as "*keren hishtalmut*"), pension, severance, risk insurances (e.g., life, or work disability insurance), payments for social security and tax gross-up payments, vacation, car, medical insurance and benefits, phone, convalescence or recreation pay and other benefits and perquisites consistent with our policies.
- (3) Represents Annual Cash Bonuses approved by our compensation committee and board of directors to the Covered Executives with respect to the year ended December 31, 2017 and Special Cash Bonuses paid in 2017, based on our compensation policy.
- (4) Represents the equity-based compensation expenses recorded in our consolidated financial statements for the year ended December 31, 2017, based on the fair value of the applicable options on the date of grant thereof, in accordance with accounting guidance for equity-based compensation. For a discussion of the assumptions used in reaching this valuation, see Note 20 to our consolidated financial statements included elsewhere in this report. We pay each of our external directors the maximum amount of statutory compensation to an external director of a dual-listed company allowed by the applicable law and regulations, which is in the amount of NIS 134,180 (approximately \$38,702) per year and NIS 4,035 (approximately \$1,164) per meeting which such external director attends (including meetings of committees of the Board of Directors), adjusted for changes in the Israeli CPI for October 2015. As resolved in our annual shareholders meeting held in July 2011, our independent directors (Shlomo Waxe and Ephraim Kunda) are compensated at the same level as a statutory external director of a dual listed company, as described above.

We pay our Controlling Shareholder Directors as follows: Regarding Mr. Ami Erel, our Chairman of the board of directors, for the period from January 2017 until June 2017 we paid management fees to DIC in the amount equal to the statutory director fee of a dual listed company, as described above; and from June 2017, we paid the monthly remuneration approved by our compensation committee, board of directors and shareholders for his services as an executive director - the amount of NIS 87,500 plus VAT, linked to the Israeli CPI. Regarding Mr. Mauricio Wior, our Vice Chairman of the board of directors, we paid a director's fee in the same amount as the statutory external director of a dual listed company, as described above. See "Item 8. Major Shareholders and Related Party Transactions – Related Party Transactions – Relationship With Affiliates".

Employment Agreement of Nir Sztern

Mr. Nir Sztern, our Chief Executive Officer as of January 1, 2012, is entitled to a gross monthly salary of NIS 120,000 linked to Israeli CPI. He is also entitled to a company car and the use of a cellular phone. Mr. Sztern may receive an Annual Cash Bonus and Special Cash Bonus as per our Compensation Policy detailed above, in respect of which no social benefits are accrued. Mr. Sztern's Annual Cash Bonus for 2017 and Special Cash Bonus (approved by our shareholders and paid to Mr. Sztern in 2017) amounted to NIS 2.0 million (after Mr. Sztern waived 10% of his Annual Cash Bonus). Mr. Sztern is also entitled to participate in our share option plan. Mr. Sztern's agreement contains provisions for vacation days, sick leave, managers' insurance and an education fund. The aggregate monthly cost to us of Mr. Sztern's employment in 2017 amounted to approximately NIS 167,800 (approximately \$48,400), not including the bonuses. The agreement is for an unspecified period of time and can be terminated by either party with advance notice of three months. Mr. Sztern will continue to receive his salary and benefits for a period of three months after termination by either party, unless we terminate the agreement for cause.

C. BOARD PRACTICES

Corporate Governance Practices

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

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

Under the Companies Law, our Board of Directors must determine the minimum number of members of our Board of directors required to have financial and accounting expertise, as defined in the regulations of the Companies Law. In determining the number of directors required to have such expertise, the Board of Directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our Board of Directors has determined that we require at least two directors with the requisite financial and accounting expertise and that Messrs. Erel and Wior have such financial and accounting expertise. The Companies Law and the regulations promulgated thereunder also require that at least one of our External Directors has financial and accounting expertise, and consider a person who is an audit committee independent financial expert according to U.S. law to comply with that requirement. Our Board of Directors has determined that Ms. Ronit Baytel qualifies as an "audit committee financial expert" as defined by the SEC in Item 16.A of Form 20-F.

Until December 2017 we were a third layer company in a pyramidal structure (a layer being a public corporation or a private company that issued certain securities to the public) as defined in the Concentration Law, and our board of directors' composition accorded with the independent and external directors requirements set in such law (the majority of the Board of Directors were required to be independent directors and half the Board of Directors minus one (rounded up) but not less than two, were required to be external directors). As of December 2017 we are a second layer company according to such law and the requirements that were imposed on us as a third layer company are no longer applicable to us.

Board of Directors and Officers

Our articles of association provide that we must have at least five directors. Each director (other than external directors and directors required to be appointed by Israeli citizens and residents from among our founding shareholders) will hold office until the next annual general meeting of our shareholders following his or her election. The approval of at least a majority of the voting rights represented at a general meeting and voting on the matter is generally required to remove any of our directors from office (other than external directors and directors required to be appointed by Israeli citizens and residents from among our founding shareholders), provided that directors appointed by the Board of Directors may also be removed by the Board of Directors. A majority of our shareholders at a general meeting may elect directors or fill any vacancy, however created, in our Board of Directors (other than external directors and directors required to be appointed by Israeli citizens and residents from among our founding shareholders). In addition, directors, other than an external director or a director required to be appointed by Israeli citizens and residents from among our founding shareholders, may be appointed by a vote of a majority of the directors then in office. We do not enter into service contracts with our directors.

Our Board of Directors currently consists of seven directors, including four independent directors under the rules of the NYSE, of whom two also qualify as external directors under the Companies Law. Two of our current directors, Mr. Waxe and Mr. Kunda (who are independent directors) were elected at our annual shareholders meeting held in December 2017. Mr. Wior who was also elected by our 2017 general meeting, was later on (February 2018) appointed by the Israeli shareholders, in accordance with our license and articles of association's requirement that at least 10% of our directors be appointed by Israeli citizens and residents from among our founding shareholders, or Israeli Shareholders. Mr. Erel (who had been previously appointed by DIC in its capacity as our previous Israeli Shareholder) was appointed by our board of directors in February 2018, until our next annual meeting and Mr. Lapidot was appointed by our board of directors in March 2018, until our next annual meeting. Our external directors, Mr. Barnea and Ms. Baytel, were elected in our annual shareholders meeting held in June 2017 for an additional term until our 2018 annual general meeting.

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

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

External Directors

Qualifications of external directors

Companies incorporated under the laws of the State of Israel whose securities are listed on a stock exchange are required by the Companies Law to appoint at least two external directors. External directors are required to possess professional and other qualifications as set out in the Companies Law and the regulations promulgated thereunder. Our external directors were appointed by our shareholders in May 2007 for an initial term of three years, and were thereafter reelected to additional three year terms in April 2010 and 2013, in May 2016 for an additional one year term and in June 2017 for an additional term until our 2018 annual general meeting. The Companies Law provides that a person may not be appointed as an external director of a company that has a controlling shareholder if the person is a relative of the controlling shareholder, or if the person, or the person's relative, partner, employer, direct or indirect supervisor or any entity under the person's control has or during the two years preceding the date of appointment had, an affiliation with the company or any entity controlling, controlled by or under common control with the company.

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

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

For two years following the termination of an external director's service, the company and its controlling shareholder may not appoint the external director, or his or her spouse or child, as an office holder in that company or another company under common control, and cannot employ or receive services from that person for pay or grant any benefit, either directly or indirectly, including through a corporation controlled by that person. The same restrictions apply in regards to a relative who is not the external director's spouse or child for a period of one year.

Election of external directors

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

a majority of the aggregate number of shares voted at the meeting by non-controlling shareholders and shareholders who do not have a personal interest in the matter are voted in favor of the election of the external director; or

the total number of shares of non-controlling shareholders and shareholders who do not have an applicable personal interest in the matter voted against the election of the external director does not exceed 2% of the aggregate voting rights in the company.

The initial term of an external director is three years and he or she may be reelected to up to two additional terms of three years each by means of one of the following mechanisms: (i) the board of directors proposed the nominee and the nominee's appointment was approved by the shareholders by a Special Majority, or (ii) a shareholder holding 1% or more of the voting rights or the external director proposed the nominee, and the nominee is approved by the shareholders by a Special Majority, and that the nominee is not the proposing shareholder or a 5% shareholder who is an affiliate or competitor of the company or a relative or affiliate of such a shareholder. Thereafter, in dual listed companies like us, an external director may be reelected by our shareholders for additional periods of up to three years each under certain conditions. An external director may only be removed by the same percentage of shareholders votes as is required for the election of an external director, or by a court, and then only if the external director ceases to meet the statutory qualifications or violates his or her duty of loyalty to the company. If an external directorship becomes vacant, a company's board of directors is required under the Companies Law to call a shareholders' meeting promptly to appoint a new external director.

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

Israeli-appointed directors

Our license requires that at least 10% of our directors will be appointed and removed by shareholders who are Israeli Shareholders. If our Board of Directors is comprised of 14 directors or less, the Israeli Shareholders will be entitled to appoint one director, and if our Board of Directors is comprised of between 15 and 24 directors, the Israeli shareholders will be entitled to appoint two directors. Our articles of association so provide. Mr. Mauricio Wior is the director appointed by the Israeli Shareholders.

Board Committees

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

Audit committee

Under the Companies Law, the board of directors of a public company must establish an audit committee. The audit committee must consist of at least three directors and must include all of the company's external directors, and the majority of its members is required to be independent (as such term is defined under the Israeli Companies Law). The chairman of the audit committee is required to be an external director. The members of the audit committee are also required to meet the independence requirements established by the SEC in accordance with the requirements of the Sarbanes-Oxley Act.

Our audit committee provides assistance to our Board of Directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting and internal control functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management and is responsible for reviewing and approving certain related party transactions, as described below

Our audit committee is composed entirely of independent members (both under the Israeli Companies Law and the Sarbanes-Oxley Act) and includes all the external directors. The members of our audit committee are Messrs. Barnea (chairman), Waxe, and Kunda and Ms. Baytel. Our board of directors determined Ms. Baytel to be qualified to serve as an "audit committee financial expert" as defined by the SEC's rules.

Financial exposure management subcommittee

Our financial exposure management subcommittee, which is a subcommittee of our audit committee, was nominated by our Board of Directors and reviews our financial exposures, investment and hedging policies and recommends to our Board of Directors how we might enhance our investment and hedging performance. Our financial exposure management subcommittee consists of our external directors, Mr. Barnea and Ms. Baytel.

Analysis committee

Our analysis committee reviews our costs and annual budget and recommends ways to achieve cost efficiency in our activities to our Board of Directors. Our analysis committee also reviews our operations and future plans and recommends how we might enhance our present and future performance to our Board of Directors. Our analysis committee consists of all our board members.

Option committee

Our option committee administers the issuance of options under our 2015 Share Incentive Plan to our employees who are not office holders, as well as any actions and decisions necessary for the ongoing management of the plan. Our option committee consists of Messrs. Erel (chairman) and Barnea.

Security committee and observer

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

Compensation committee

Under the Companies Law, the board of directors of a public company must establish a compensation committee. The compensation committee must consist of at least three directors and must include all of the company's external directors and the external directors must constitute the majority of its members. The chairman of the compensation committee must be one of the external directors. Other members of the committee should be directors whose terms of compensation are the same as external directors. Under the Companies Law, the compensation committee functions are to recommend to the board of directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders, based on specified criteria, to review modifications to the compensation policy from time to time, to review its implementation and to approve the actual compensation terms of office holders. The composition of our compensation committee complies with the requirements described above. Our compensation committee consists of Ms. Baytel (chairperson), Mr. Kunda and Mr. Barnea.

Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor nominated by the audit committee. The role of the internal auditor is to examine whether a company's actions comply with applicable law and orderly business procedure. Under the Companies Law, the internal auditor may not be an interested party or an office holder, or a relative of any of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. An interested party is generally defined in the Companies Law as a 5% or greater shareholder, any person or entity who has the right to designate one director or more or the chief executive officer of the company or any person who serves as a director or as the chief executive officer. Our internal auditor is Mr. Itzik Ravid of Rave Ravid and Associates, a leading Israeli internal auditing firm.

Approval of Specified Related Party Transactions under Israeli Law

Fiduciary duties of office holders

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

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

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

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

Personal interests of an office holder

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

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

other than in the ordinary course of business;
that is not on market terms; or
that is likely to have a material impact on the company's profitability, assets or liabilities.

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

Personal interests of a controlling shareholder

Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company. Accordingly, Koor, DIC, and entities and persons that directly or indirectly control DIC, are considered to be our controlling shareholders. Extraordinary transactions with a controlling shareholder or with relatives of a controlling shareholder or in which a controlling shareholder has a personal interest, directly and indirectly, including through a company controlled by him or her, and any transaction for him or her to provide services to the company (for arrangements regarding the compensation, indemnification or insurance of a controlling shareholder, see "Compensation arrangements" below), require the approval of the audit committee, the board of directors and a majority of the shareholders of the company, in that order. In addition, the shareholders' approval must be by a Special Majority.

In addition, any such extraordinary transaction whose term is more than three years generally requires approval as described above every three years.

Compensation arrangements

Every public company must adopt a compensation policy, recommended by the compensation committee and approved by the board of directors and the shareholders, in that order. The shareholder approval requires a Special Majority. In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy.

In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder generally must be approved separately by the compensation committee, the board of directors and the shareholders of the company by a Special Majority, in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

Duties of shareholders

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

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

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

Approval of Private Placements

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

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

D. EMPLOYEES

Our ability to achieve our strategic goals largely depends on our employees. Consequently, we strive to recruit the most suitable candidates for each position, to give our employees the best training needed to qualify them for their tasks within our organization and aim to keep them satisfied while being productive and efficient. We implement a comprehensive review system that periodically analyzes our employees' performance in order to improve their performance and in order to enable us to properly compensate, retain and promote our best employees. Since we are committed to providing the best service to our subscribers, approximately 74% of our work force is engaged in customer-facing positions.

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

Unit	Number of Full-Time Equivalent Positions		
	December 2015	December 2016	December 2017****
Management and headquarters	43	40	42
Human resources	92	98	99
Marketing	63	59	58
Customers*	2,653	2,514	2,443
Finance	135	130	128
Technologies	516	540	537
Operation and administration**	-	-	-
Our subsidiaries***, excluding our wholly owned dealer	142	181	51
Total	3,645	3,563	3,358

*Includes the customer-facing units: business customers, sales and services and supply chain.

** In 2015 the functions composing the operation and administration unit were transferred to other units as follows: the finance unit - 45 employees, human resources unit – 30 employees and marketing unit - 11 employees.

***Includes companies in which we hold 50% or more of the issued share capital. Includes 100 and 133 employees in 2015 and 2016, respectively, of one of our subsidiaries which was sold in 2017.

**** In February 2018, following the transfer of 013 Netvision's operations into Cellcom Fixed Line Communications Limited Partnership (both our wholly owned subsidiaries), all 013 Netvision employees became employees of Cellcom Israel Ltd.

In 2015, we entered into a collective employment agreement with the Company's employees' representatives and the Histadrut, an Israeli labor union, for a term of three years (2015-2017). We are negotiating the renewal of the agreement. The agreement applies to the Company's employees, excluding certain managerial and specific positions. The agreement defines employment policy and terms in various aspects, which are more favorable to our employees than the requirements of Israeli law, including minimum wage, annual salary increase, incentives, benefits, participation in our operational income over a certain threshold and other one time or annual payments to the employees, as well as a welfare budget and procedures relating to manning a position, change of place of employment and dismissal. In November 2016, Dynamica, our wholly owned dealer, entered into a collective employment agreement with Dynamica's employees' representatives and the Histadrut, which is substantially similar to our collective employment agreement. In March 2018, the Histadrut announced a labor dispute at the Company. See also "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – The unionizing of our employees may impede necessary organizational and personnel changes, result in increased costs or disruption to our operation".

Israeli labor laws govern many aspects of the terms and conditions of employment and dismissal of employees, including minimum wages for employees, severance pay (Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment) and the employer's obligation to contribute certain percentages of the wages to a pension plan. As of January 2017, contribution to a pension plan by the employee is 6% of the employee's wages, with an additional 6.5% contribution by the employer. We contribute to part of our employees' pension arrangements a percentage higher than that required by applicable regulation, which contributions are also intended to cover future severance payments. Under the collective employment agreement, the contributions to severance payment of the employees shall amount to 8.3% of the employee wages, after completing 3 years of employment with us. A provision in our consolidated financial statements covers severance pay in other cases, such as to those employees who were 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. As of January 1, 2018, the total payments to the National Insurance Institute are up to 18% of an employee's wages (up to a specified amount), of which the employee contributes approximately 12% and the employer contributes approximately 6%.

The Israeli labor law subjects employers to increased liability, including monetary sanctions and criminal liability, in cases of violations of certain labor laws and certain violations by contractors providing maintenance, security and cleaning services.

In 2015, the Minimum Wage Law was amended to increase the minimum wage paid to employees in Israel in four installments, from April 2015 to December 2017. The increase has adversely affected our results of operations.

We enter into personal employment agreements with our employees on either a monthly (in most cases, full-time positions) or hourly basis. Employment agreements of our employees who are included in the collective agreement are subject to the provisions of the collective employment agreement. 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 87% of our customer-facing employees are entitled to performance-based incentives, which are granted mainly to customer-facing personnel. In addition, some of our employees are entitled to an annual bonus based on our overall performance and individual performance, subject to the discretion of our Board of Directors. Under the collective employment agreement, some of our employees are entitled to an annual bonus. We also contribute funds on behalf of some of our employees to an education fund and under the collective employment agreement to all employees after completing 3 years of employment with us.

We have entered into agreements with a number of services companies under which they provide us with temporary workers.

In the second quarter of 2014 to 2016 we launched, together with the employees representing labor union, voluntary retirement plans for employees, in which approximately 380, 330 and 190 employees, respectively, have retired, following which we incurred costs of approximately NIS 39 million, NIS 25 million and NIS 13 million, respectively.

E. SHARE OWNERSHIP

As of December 31, 2017, Koor beneficially owned 42,514,002 ordinary shares, and the voting rights in an additional 3,412,500 ordinary shares are held by Koor. In January 2018, 5% of our outstanding share capital held by Koor was transferred (through a lending transaction) to two Israeli Shareholders, which are considered joint controlling shareholders with Koor. In addition, as of December 31, 2017, 680,288 ordinary shares were held by an indirect subsidiary of IDB Development Ltd., or IDB (controlled by corporations controlled by Mr. Eduardo Elzstain) for its own account. This does not include a total of 5,760,060 ordinary shares held as of that date for members of the public through, among others, provident funds, mutual funds, pension funds, insurance policies and unaffiliated third-party client accounts, which are managed by indirect subsidiaries of IDB and DIC. Each of these entities (other than Koor, DIC and the Israeli Shareholders, respectively) and persons disclaims beneficial ownership of such shares, and all of these entities and persons disclaim beneficial ownership of our shares held under management of subsidiaries of IDB or DIC for others. Except as described above, none of our executive officers or directors beneficially owns 1% or more of our outstanding ordinary shares.

Share Incentive Plans

We have introduced two Share Incentive Plans, the first in September 2006 and the second in March 2015, or the Plans. These option plans are open to all our employees, directors, consultants and sub-contractors and to those of our affiliates and our shareholders' affiliates. Under the plan, our Board of Directors (or an option committee to which such authority may be delegated by our Board of Directors) is authorized to determine the terms of the awards, including the identity of grantees, the number of options or restricted stock units ("RSUs") to be granted, the vesting schedule and the exercise price. The options or RSUs have a term of six years and under the 2006 plan vest in four equal installments on each of the first, second, third and fourth anniversary of the date of grant and under the 2015 plan vest in three equal installments on each of the first, second and third anniversary of the date of grant. Under the Plans, unvested options or RSUs terminate immediately upon termination of employment or service. The Plans define acceleration events of options or RSUs granted, including a merger, a consolidation, a sale of all or substantially all of our consolidated assets, or the sale or other disposition of all or substantially all of our outstanding shares. The Plans terminate upon the earlier of ten years from its adoption date or the termination of all outstanding options or RSUs pursuant to an acceleration event. The terms of the Plans provide for a net exercise mechanism, the result of which is to require us to issue a smaller number of ordinary shares than represented by the outstanding options. Unless the Board of Directors otherwise approves, the number of ordinary shares issuable by us upon the exercise of an option will represent a market value that is equal to the difference between the market price of the ordinary shares and the option exercise price of the exercised options, at the date of exercise. Distribution of cash dividends before the exercise of the options reduces the exercise price of each option by an amount equal to the gross amount of the dividend per share distributed.

In December 2013, our compensation committee and board of directors resolved to grant 234,000 options under the 2006 share incentive plan to two executive officers, at an exercise price of US\$ 14.65 per share. The options granted, in accordance and subject to our compensation policy provisions, vested in three equal installments on each of the first, second and third anniversary of the date of grant. The options of the third installment may be exercised with 18 month from their vesting.

In August 2015, our compensation committee and board of directors resolved to grant 2,660,000 options under the 2015 share incentive plan to certain non-director officers and senior employees, of which 1,740,000 options were granted to the Company's executive officers, including 525,000 options to Mr. Sztern, the Company's CEO, at an exercise price of NIS 25.65 per share. Mr. Sztern's grant was further subject to shareholders approval in accordance with the Israeli Companies Law, which was received in October 2015. In November 2016, our board of directors resolved to grant 63,000 options under the 2015 share incentive plan to certain senior employees, at an exercise price of NIS 29.97 per share. The options granted will be vested in three equal installments on each of the first, second and third anniversary of the date of grant. The options of the first installment may be exercised within 24 months from their vesting, and the options of the second and third installments may be exercised with 18 month from their vesting. We will record the total sum of approximately NIS 12 million, as a compensation cost related to these grants, over the vesting period (2015 – 2019).

In November 2017, senior employees and non-director officers of the Company sold an aggregate of 399,078 shares of the Company issued to them upon their exercise of vested options, constituting approximately 0.39% of the Company's issued share capital, to financial institutions. To our knowledge, the purchasers intended to place such shares for sale outside the United States to non-US investors.

As of December 31, 2017, an aggregate of 963,665 ordinary shares were issuable upon exercise of options according to the terms above.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of our shares as of December 31, 2017, by each person, or group of affiliated persons, known to us to be the beneficial owner of 5% or more of our outstanding shares.

In accordance with the rules of the SEC, beneficial ownership includes voting or investment power with respect to securities and includes any shares issuable pursuant to options that are exercisable within 60 days of December 31, 2017. Any shares issuable pursuant to options are deemed outstanding for computing the percentage of the person holding such options but are not outstanding for computing the percentage of any other person. The percentage of beneficial ownership for the following table is based on 101,044,557 ordinary shares outstanding as of December 31, 2017. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, our major shareholders do not have different voting rights and the persons named in the table have sole voting and investment power with respect to all ordinary shares held by them.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent
Koor Industries Ltd., or Koor *	45,926,502	45.45%
Psagot Investment House Ltd.**	6,440,219	6.37%
Clal Insurance Enterprises Holdings Ltd., or Clal***	6,072,646	6.01%
Directors and executive officers as a group (16 persons)****	78,000	0.08%

* In September 2017, our shares held by DIC (as well as DIC's holdings in DIC Communication and Technology Ltd., or DICC, an Israeli company, a wholly owned subsidiary of DIC which also holds our shares), were transferred to Koor. Koor is a private company, wholly owned by DIC.

As of December 31, 2017, Koor's holdings included 30,325,647 ordinary shares held by Koor directly, 12,188,355 ordinary shares held by DICC and 3,412,500 ordinary shares, representing approximately 3.38% of our issued and outstanding shares, held by few shareholders whose voting rights are vested in Koor. Does not include (1) the holdings of Clal, which is a subsidiary of IDB, noted separately in the table, and (2) 367,702 ordinary shares (representing approximately 0.36% of our issued and outstanding shares) held as of December 31, 2017 for members of the public through, among others, provident funds, mutual funds, pension funds, insurance policies and unaffiliated third-party client accounts, which are managed by an indirect subsidiary of DIC.

In January 2018, 5% of our outstanding share capital held by Koor was transferred (through a lending transaction) to two Israeli Shareholders (2.5% to each). One of them is controlled by Mr. Mauricio Wior, the vice chairman of the Company and the other one is controlled by an officer of a company controlled by the Company's controlling shareholder. The Israeli Shareholders are considered joint controlling shareholders with Koor. See "- Agreements Among our Shareholders" below.

The Israeli Shareholders have appointed one member of our board of directors pursuant to our cellular license and our Articles of Association and in March 2018 DIC's CEO was appointed as a member of our board of directors.

DIC, a public Israeli company traded on the Tel Aviv Stock Exchange, was owned 70.74% by IDB until December 2017. In November 2017, as part of IDB's alignment with the limitations set in the Concentration Law regarding pyramidal structure, IDB completed the sale of its holdings in DIC to a private company controlled by various companies controlled by Mr. Eduardo Elzstain. Such private company currently holds approximately 77% of DIC's outstanding shares. Pursuant to such sale these DIC's shares have been pledged as collateral to IDB's debentures' holders and IDB, in several pledges of different rank.

Based on the foregoing, DIC (by reason of its control of Koor), companies controlled by Eduardo Elzstain (as described above), and Eduardo Elzstain may be deemed to share with Koor the power to vote and dispose of our shares beneficially owned by Koor. Each of these entities (other than Koor, DIC and the Israeli Shareholders, respectively) and persons disclaims beneficial ownership of such shares, and all of these entities and persons disclaim beneficial ownership of our shares held under management of subsidiaries of IDB or DIC for others.

** Based on a Schedule 13G filed by Psagot Investment House Ltd. with the SEC on February 12, 2018, it has shared dispositive power with respect to 6,440,219 shares and shared voting power with respect to 3,229,193 shares.

*** Clal is a TASE-listed subsidiary of IDB. Based on a Schedule 13G filed by Clal with the SEC on February 14, 2018, 680,288 shares are held for its own account and the remainder is held for members of the public through, among others, provident funds, pension funds, insurance policies which are managed by subsidiaries of Clal, which subsidiaries operate under independent management and make independent voting and investment decisions.

****Includes 78,000 ordinary shares issuable upon the exercise of stock options that are exercisable on, or within 60 days following December 31, 2017.

As of December 31, 2017, we had 19 holders of record of our equity securities who are, to our knowledge, located in the United States. The shares held by these holders of record represent 94.3% of our outstanding ordinary shares. However, this number is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are located because nearly all of such ordinary shares were held of record by Cede & Co. for the account of the brokers or other nominees, including the Tel Aviv Stock Exchange; approximately 42.07% of our ordinary shares owned directly and indirectly by Koor as of December 31, 2017 is also held of record by Cede & Co.

In 2016, DIC purchased approximately 0.5% of our issued share capital on the TASE.

B. *RELATED PARTY TRANSACTIONS*

Agreements among our Shareholders

In January 2018, Koor entered into a lending transaction under which 5% of our outstanding share capital held by Koor was transferred to two Israeli Shareholders (2.5% to each), or the Transferred Shares. One of them is controlled by Mr. Mauricio Wior, the vice chairman of the Company, and the other is controlled by an officer of a company controlled by the Company's controlling shareholder. The main terms of the agreement are:

The agreement will be in force until December 31, 2018 and will be automatically extended by a one year term until terminated according to its terms.

Koor will have the right to terminate the agreement at any time and receive all or part of the Transferred Shares. The Israeli Shareholders will not be able to transfer the Transferred Shares without Koor's approval and subject to additional terms, including the transferees assuming the Israeli Shareholder's obligation towards Koor pursuant to the Agreement, the transferees being "Israeli Shareholders" under the Company's cellular license and the MOC's prior approval of such transfer, if required.

As long as such requirement exists in the Company's cellular license, the Israeli Shareholders will have the right to appoint 10% of our directors (currently – one director). The Israeli Shareholders will vote with Koor in all shareholders resolutions (including the nomination of directors suggested by Koor). The Israeli Shareholders will be considered as joint-holders with Koor in our shares according to the Israeli Securities Law and, therefore, joint controlling shareholders.

The Transferred Shares (including all rights or income therefrom) will be pledged by a first-degree pledge in favor of Koor, and any realization of such pledge will be subject to the receipt of the MOC's approval, if required.

In case of any dividend or other distribution (including rights by way of a rights offering), these will be transferred by the Israeli Shareholders to Koor. In case of other corporate actions, including conversion, sub-division, consolidation etc., Koor may notify the Israeli Shareholders, at its sole discretion, if such rights will be part of the Transferred Shares or shall be transferred to Koor.

Minority shareholders agreements

Original minority shareholders (or their successors and assignees) currently own approximately 3.38% of our outstanding ordinary shares. These minority shareholders have granted the voting rights in these shares to Koor and are restricted from transferring these shares without the prior written consent of Koor and their transfer are subject to a right of first refusal in favor of Koor. Each of these minority shareholders has also committed not to compete, directly or indirectly, with our cellular communications business in Israel so long as he is a shareholder and for a period of one year thereafter.

Migdal 2006 share purchase agreement

In 2006, DIC sold 4% of our then outstanding ordinary shares to Migdal Insurance Company Ltd. and two of its affiliates, or the Migdal shareholders. As part of this transaction, DIC granted the Migdal shareholders a tag along right, in the event it sells shares resulting in it no longer being a controlling shareholder. In return, DIC has the right to force the Migdal shareholders to sell their shares in a transaction in which DIC sells all of its shares to a purchaser outside DIC or IDB and their affiliates. To the best of our knowledge, no such right has materialized.

Relationship with Affiliates

As of December 31, 2017, an aggregate amount of approximately NIS 19 million principal amount of our Series F, G, H, I, J and K Debentures were held by entities affiliated with DIC and IDB's principal shareholders or officers for the benefit of members of the public through provident funds, mutual funds, pension funds and unaffiliated third-party client accounts.

As of December 31, 2017, 680,288 of our ordinary shares were held by an indirect subsidiary of IDB for its own account and an aggregate of 5,760,060 of our ordinary shares were held by members of the public through, among others, provident funds, mutual funds, pension funds, insurance policies and unaffiliated third-party client accounts, which are managed by indirect subsidiaries of IDB and DIC. Such holdings are not included in the holdings set forth in the Beneficial Owners' table above.

In October 2006, we entered into an agreement with DIC pursuant to which DIC provided us with services in the areas of management, finance, business and accountancy and with employees and officers of DIC and its affiliates and subsidiaries to be directors of the Company, including the services of the chairman of our board of directors. This agreement is for a term of one year and is automatically renewed for one-year terms unless either party provides 60 days' prior notice to the contrary. In 2015, the agreement was amended so that the annual consideration for DIC's management services would be equal to the director's fees (both the annual fee and the meeting attendance fee) paid to our external and independent directors (see "– Executive Officer and Director Compensation" above), for each director that DIC nominates or proposes to our Board of Directors, but no more than five directors.

Under the Israeli Companies Law, an agreement with a controlling shareholder, such as our management services agreement with DIC, cannot continue for more than three consecutive years unless re-approved by the audit committee, board of directors and minority shareholders. Accordingly, our audit committee, board of directors and minority shareholders approved the agreement for a term ending in October 2018. In 2017, we paid such management fees to DIC for the services of Mr. Ami Erel, our Chairman of the board of directors, for the period commencing January 2017 and ending June 2017 (when a monthly remuneration to Mr. Ami Erel as an executive director was approved). Since then and until the end of 2017, no director's services were included in the management agreement and no management fees were paid to DIC (or Koor).

In the ordinary course of business, from time to time, we purchase, lease, sell and cooperate in the sale of goods and services, or otherwise engage in transactions with DIC, IDB or affiliates thereof, entities affiliated with DIC or IDB's principal shareholders or officers and entities otherwise engaged with such DIC or IDB member or affiliates in a manner that may create a personal interest of our controlling shareholders or directors. We believe that all such transactions are on commercial terms comparable to those that we could obtain from unaffiliated parties. These transactions are subject to rigorous corporate governance rules, as described under Item 6.C under "Approval of Specified Related Party Transactions under Israeli Law".

Registration Rights Agreement

In 2006, we entered into a registration rights agreement with DIC, two wholly-owned subsidiaries of DIC (one of whom ceased to exist in 2011) which are shareholders and six other shareholders (some of whom no longer hold the registrable shares). For a summary of the terms of the agreement, see "Item 10. Additional Information – C. Material Contracts."

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See Item 18.

Legal Proceedings

General

We are served from time to time with claims concerning various matters, including disputes with customers, former employees, commercial disputes with third parties with whom we do business and disputes with government entities, including local planning and building committees and the Ministry of Communications. These include purported class actions, filed mainly by our subscribers, regarding claims such as alleged overcharging of tariffs, misleading representations, providing services not in compliance with applicable law, our license's requirements or a subscriber's agreement. The following is a summary of all significant or potentially significant litigation as well as all our purported class actions, pending as of the date of this annual report.

Increased number of requests for certification of class action lawsuits against us may increase our legal exposure as a result of such class action lawsuits and our legal costs in defending against such suits. See "Item 3. Key Information – D. Risk Factors – We are exposed to, and currently are engaged in, a variety of legal proceedings, including class action lawsuits."

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

Based on advice of counsel, we believe it is more likely than not that substantially all the claims and disputes detailed below will be determined in our favor and accordingly, no provision has been made in the financial statements in respect of these claims and disputes. We have made a provision in the amount of approximately NIS 49 million for the claim/s and dispute/s we are willing to settle or for which we cannot reach a conclusion that it is more likely than not that the claim/s and dispute/s will be determined in our favor.

Purported class actions

35 purported class actions have been filed against us in connection with allegations that we, among others (i) unlawfully, in violation of our license or agreements with our subscribers, charged or overcharged our subscribers for our services, (ii) misled our subscribers or unlawfully sent our subscribers and other parties commercial messages, (iii) unlawfully, in violation of our license or agreements with our subscribers, discriminated among our subscribers, or (iv) failed to provide customer care in accordance with the provisions of our license and applicable law. The amount claimed estimated by the plaintiffs in these purported class actions ranges from approximately NIS 3.2 million to NIS 405 million, or was not estimated by the plaintiffs if the lawsuits are certified as class actions or were filed against us and other defendants without specifying the amount claimed from us. In addition, in Four purported class actions, three in which the aggregate amount claimed estimated by the plaintiffs was approximately NIS 104 million and a fourth in which no amount claimed was estimated by the plaintiffs, were dismissed (in whole or in part) and appealed by the plaintiffs or us (for details of those which were approved and appealed see "-Class actions" below). In addition, in two purported class action, for which the aggregate amount claimed estimated by the plaintiffs was approximately NIS 15.1 billion, settlement agreements were filed with the court and the proceedings are still pending.

We have recorded appropriate provisions for each of the settlement agreements filed with the courts and described above.

In 2015, a purported class action was filed against us, by plaintiffs alleging to be subscribers of the Company, claiming compensation for non-monetary damages in connection with allegations that we unlawfully violated the privacy of our subscribers and were unlawfully enriched by so doing. The amount claimed from us, if the lawsuit is certified as class action is estimated by the plaintiffs to be NIS 15 billion. In February 2017, a settlement agreement was filed with the court and the proceedings are still pending.

A purported class action filed against us and two other Israeli cellular operators in December 2015, alleging that the defendants unlawfully offer cellular pre-paid calling cards for very high prices by allegedly coordinating such prices, was dismissed in September 2016 and the plaintiff's appeal was dismissed in January 2017.

Class actions

In August 2016, the district court approved a request to certify a lawsuit filed against us in February 2015 as a class action, relating to an allegation that we unlawfully charged our subscribers with early termination fees. The total amount claimed was estimated by the plaintiff to be approximately NIS 15 million.

In October 2016, the district court approved a request to certify a lawsuit filed against us in January 2013 as a class action, relating to an allegation that we unlawfully charged our subscribers before the subscribers' portability to our network was completed. The total amount claimed was estimated by the plaintiff to be approximately NIS 19 million.

In December 2016, the district court partially approved a request to certify a lawsuit filed against us in July 2014 as a class action, relating to an allegation that the commercial messages we sent to our subscribers failed to meet the requirements of applicable law. In January 2017, the plaintiffs appealed the dismissal of the allegations which were not approved, to the Supreme Court. The total amount claimed was estimated by the plaintiffs to be approximately NIS 21 million.

In January 2017, the district court partially approved a request to certify a lawsuit filed against us in February 2013 as a class action, relating to an allegation that we failed to disconnect customers within the time frame set in our license and applicable law. In March 2017, the plaintiffs appealed the dismissal of the allegations which were not approved, to the Supreme Court. The total amount claimed was estimated by the plaintiffs to be approximately NIS 72 million.

In December 2017, the district court partially approved a request to certify a lawsuit filed against us in May 2015 as a class action, relating to an allegation that we breached the agreements with our subscribers by charging them for a call details service, which was previously provided free of charge, without obtaining their consent. In February 2018, we appealed the approval of this allegation to the Supreme Court and the plaintiff appealed the dismissal of other allegations. The total amount claimed was not estimated by the plaintiffs.

Dividend Policy

Our dividend policy targets the distribution of at least 75% of our annual net income on a quarterly basis, 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 debentures and other credit facilities include additional limitations, including a covenant not to distribute more than 95% of the profits available for distribution according to the applicable Israeli law ("Profits"), provided that if net leverage (defined as the ratio of net debt to EBITDA over four consecutive quarters) exceeds 3.5:1, we will not distribute more than 85% of the Profits and if net leverage exceeds 4.0:1, we will not distribute more than 70% of the Profits. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service" and "– Other Credit Facilities". Our Board of Directors will consider, among other factors, our expected results of operation, including changes in pricing, regulation 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, as well as our debentures' rating, in order to conclude whether there is no reasonable concern that a distribution of dividends will prevent us from satisfying our existing and foreseeable obligations as they become due. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to pay dividends at a ratio to net income that is less than that paid in the past. For example, our Board of Directors may determine not to distribute dividends in order to strengthen our balance sheet, that market conditions are uncertain or that our cash needs for debt service, capital expenditures or operations require that we do not pay dividends when considered. Accordingly, shareholders should not expect that any particular amount or at all 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 the following limitations under Israeli law: (1) 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; and (2) our license requires that we and our 10% or more shareholders maintain at least \$200 million of combined shareholders' equity. Our shareholders' equity on December 31, 2017 was over \$ 200 million.

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

In 2015, 2016 and 2017 our Board of Directors chose not to declare dividends given the intensified competition and its adverse effect on our results of operations and in order to strengthen our balance sheet.

B. SIGNIFICANT CHANGES

No significant change has occurred since December 31, 2015, except as otherwise disclosed in this annual report.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Trading in Israel

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

The following table sets forth, for the periods indicated, the reported high and low prices in NIS for our ordinary shares on the TASE, as retroactively adjusted by the TASE to reflect the payment of dividends.

	<u>High</u> NIS	<u>Low</u> NIS
Annually		
2013	49.3	26.3
2014	48.5	33.5
2015	32.7	13.9
2016	32.7	22.3
2017	41.1	30.3
Quarterly		
2016		
First Quarter	27.3	22.3
Second Quarter	32.5	22.4
Third Quarter	29.8	25.0
Fourth Quarter	32.7	27.3
2017		
First Quarter	41.1	31.4
Second Quarter	38.5	32.3
Third Quarter	35.1	30.3
Fourth Quarter	37.4	32.9
Monthly		
2017		
September	34.1	31.2
October	34.6	32.9
November	35.9	32.9
December	37.4	34.2
2018		
January	36.6	31.8
February	31.2	28.1

On March 22, 2018, the closing price per share of our ordinary shares on the TASE was NIS 25.62.

Trading in the United States

Our ordinary shares have traded on the New York Stock Exchange, or NYSE, under the symbol CEL since February 7, 2007.

The following table sets forth, for the periods indicated, the high and low prices in \$ for our ordinary shares on the NYSE, as retroactively adjusted by the NYSE to reflect the payment of dividends.

	<u>High</u>	<u>Low</u>
	\$	\$
Annually		
2013	14.1	7.1
2014	14.0	8.5
2015	8.4	3.6
2016	8.6	5.7
2017	11.1	8.4
Quarterly		
2016		
First Quarter	8.4	9.0
Second Quarter	5.2	9.0
Third Quarter	7.2	8.4
Fourth Quarter	8.1	9.1
2017		
First Quarter	11.1	9.0
Second Quarter	10.7	9.0
Third Quarter	9.8	8.4
Fourth Quarter	10.4	9.1
Monthly		
2017		
September	9.7	8.8
October	9.8	9.1
November	10.2	9.2
December	10.4	9.6
2018		
January	10.6	9.3
February	9.1	8.0

On March 22, 2018, the closing price per share of our ordinary shares on the NSYE was \$ 7.15.

B. PLAN OF DISTRIBUTION

Not applicable.

C. *MARKETS*

Our ordinary shares are listed on the NYSE and TASE under the symbol "CEL."

D. *SELLING SHAREHOLDERS*

Not applicable.

E. *DILUTION*

Not applicable.

F. *EXPENSES OF THE ISSUE*

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. *SHARE CAPITAL*

Not applicable.

B. *MEMORANDUM AND ARTICLES OF ASSOCIATION*

Objects and Purposes

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

Transfer of Shares

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

The restrictions included in our licenses regarding holding and transferring of our means of control are included in our articles of association. For more details relating to these restrictions, see "Item 4. Information on the Company – B. Business Overview – Government Regulations – Cellular Segment – Our Cellular License" and our principal license, a convenience translation of which has been filed with the SEC. See "Item 19 – Exhibits". The holding and transfer restrictions under our licenses are posted on our website at <http://investors.cellcom.co.il> under "Investor Relations – Corporate Governance – Legal and Corporate."

Voting

Holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders at a shareholder meeting. Shareholders may vote at shareholder meetings either in person, by proxy or by written ballot. Shareholder voting rights may be affected by the grant of special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. As required under our license, our articles of association provide that any holdings of our ordinary shares that contravene the holding or transfer restrictions contained in our license (see “—Transfer of Shares” above) will not be entitled to voting rights. In addition, our license requires that as a condition to voting at any meeting of shareholders, in person or by proxy, each shareholder must certify that its holdings of our shares do not contravene the restrictions contained in our license.

Election of Directors

Our ordinary shares do not have cumulative voting rights for the election of directors. Rather, under our articles of association our directors (other than external directors and directors appointed by Israeli Shareholders – see “Item 6.A – Directors and Senior Management—External Directors” and “-Israeli Appointed Directors.” above) are elected at a shareholders meeting by a simple majority of our ordinary shares. Directors may also be appointed for office by our Board of Directors until the next annual general meeting of shareholders.

Dividend and Liquidation Rights

Our board of directors may declare a dividend to be paid to the holders of ordinary shares on a pro rata basis. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares on a pro rata basis. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Shareholders Meetings

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

Quorum

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

Resolutions

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

Modification of Class Rights

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

Indemnification of Directors and Officers

Under the Companies Law, an Israeli company may not exempt an office holder from liability for breach of his duty of loyalty, but may exempt in advance an office holder from liability to the company, in whole or in part, for a breach of his or her duty of care (except in connection with distributions), provided the articles of association of the company allow it to do so. Our articles of association allow us to do so.

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

a breach of his or her duty of care to us or to another person;

a breach of his or her duty of loyalty to us, provided that the office holder acted in good faith and had reasonable grounds to assume that his or her act would not prejudice our interests;

a financial liability imposed upon him or her in favor of another person concerning an act performed in the capacity as an office holder.

reasonable litigation expenses, including attorney fees, incurred by the office holder as a result of an administrative enforcement proceeding instituted against him, including a payment imposed on the office holder in favor of an injured party as set forth in the Israeli Securities Law and expenses that the office holder incurred in connection with a relevant proceeding under the Securities Law, including reasonable legal expenses, which term includes attorney fees.

We maintain a liability insurance policy for the benefit of our officers and directors. See details under "Item 6. Directors, Senior Management and Employees - B. Compensation – Compensation Policy – Indemnification."

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

a financial liability imposed on or incurred by an office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court concerning an act performed in his or her capacity as an office holder. Such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that the undertaking is limited to types of events which our Board of Directors deems to be foreseeable in light of our actual operations at the time of the undertaking and limited to an amount or criterion determined by our Board of Directors to be reasonable under the circumstances, and further provided that such events and amounts or criteria are set forth in the undertaking to indemnify;

reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding was concluded without the filing of an indictment against him or her and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; or in connection with an administrative enforcement proceeding or a financial sanction, including a payment imposed on the office holder in favor of an injured party as set forth in the Israeli Securities Law, 1968, as amended (the "Securities Law"), and expenses that the office holder incurred in connection with a relevant proceeding under the Securities Law, including reasonable legal expenses, which term includes attorney fees; and

reasonable litigation expenses, including attorneys' fees, incurred by the office holder or charged to him or her by a court, in proceedings instituted by us or on our behalf or by another person, or in a criminal indictment from which he or she was acquitted, or a criminal indictment in which he or she was convicted for a criminal offense that does not require proof of intent, in each case relating to an act performed in his or her capacity as an office holder.

We have undertaken to indemnify our directors, officers and certain other employees for certain events listed in the indemnification letters given to them. In respect of office holders whom our controlling shareholders have a personal interest in their receiving indemnification letters from us, such indemnification was approved for a period of three years from our annual shareholder meeting held in 2011 and in 2014 and 2017 was extended by our audit committee and board of directors for a three year period until 2020, according to regulations promulgated under the Israeli Companies Law. Excluding reasonable litigation expenses, as described above, the aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification letters is limited to the amounts we receive from our insurance policy plus 30% of our shareholders' equity as of December 31, 2001, or NIS 486 million, and to be adjusted by the Israeli CPI.

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

a breach by the office holder of his or her duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly;

any act or omission done with the intent to derive an illegal personal benefit; or

any fine or penalty levied against the office holder.

Any exemption of, indemnification of, or procurement of insurance coverage for, our office holders must be approved according to the procedures required for the approval of compensation under "Item 6. Directors, Senior Management and Employment – C. Board Practices - Approval of Specified Related Party Transactions Under Israeli Law - Compensation Arrangements".

Mergers and Acquisitions under Israeli Law

The Companies Law requires that each company that is a party to a merger have the transaction approved by its board of directors and a vote of the majority of its shares at a shareholders meeting. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that an acquisition of shares of a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must also be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the (i) acquisition occurs in the context of a private placement by the company that received shareholder approval, (ii) the purchase of shares is from a 25% shareholder of the company and results in the acquirer becoming a 25% shareholder of the company or (iii) the purchase of shares is from a 45% shareholder of the company and results in the acquirer becoming a 45% shareholder of the company. The special tender offer must be extended to all shareholders but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. The special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

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

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

Anti-Takeover Measures under Israeli Law

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

C. MATERIAL CONTRACTS

For a description of our material suppliers, see "Item 4. Information on the Company – B. Business Overview – Network and Infrastructure – Cellular Segment – Network Sharing Agreements", "Item 4. Information on the Company – B. Business Overview –Suppliers."

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

Registration Rights Agreement

DIC and certain other shareholders entered into a registration rights agreement with us in 2006. As of December 31, 2017, 42,514,002 ordinary shares, held by DIC directly and through its wholly-owned subsidiary, are entitled to registration rights as well as any additional shares still held, if held, by the other shareholders who joined the agreement.

The registration rights holders are entitled to one demand registration per 12-month period, so long as such request is initiated by registration rights holders of at least 3.25% of the then outstanding registrable securities and the demand refers to a minimum of 3% of our then outstanding share capital, subject to customary deferral rights. In addition, in connection with any public offerings that we initiate in the future, if we propose to register any of our securities for our own account or for the account of any of our shareholders other than in a demand registration, the registration rights holders have piggyback rights to include their shares, subject to customary underwriters' cutback rights.

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

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions.

E. TAXATION

U.S. Federal Income Tax Considerations

The following is a general discussion of certain material U.S. federal income tax consequences to the U.S. holders described below of ownership and disposition of the Company's shares. This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a U.S. holder in light of the U.S. holder's particular circumstances and does not address U.S. state, local and non-U.S. tax consequences. This discussion does not address the potential application of the provisions of the Internal Revenue Code of 1986, as amended, or the Code, known as the Medicare contribution tax or any alternative minimum tax consequences. The discussion applies only to U.S. holders that hold the Company's shares as capital assets for U.S. federal income tax purposes, and it does not describe all of the tax consequences that may be relevant to U.S. holders subject to special rules, such as certain financial institutions, insurance companies, dealers or traders in securities or foreign currencies, persons holding the shares as part of a hedge, straddle, conversion transaction or other integrated transaction, persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, tax-exempt organizations, shareholders that own or are deemed to own 10% or more of the Company's stock by vote or value, or shareholders that own our shares in connection with a trade or business conducted outside of the United States.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations and the U.S.-Israel income tax treaty, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. Shareholders are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of the Company's shares in light of their particular circumstances.

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

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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

Except as described below, this discussion assumes that the Company is not a passive foreign investment company, or PFIC, for any taxable year.

Taxation of Distributions

Distributions paid on the Company's shares, other than certain *pro rata* distributions of ordinary shares, will be treated as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Since the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, U.S. holders will generally be required to treat such distributions as taxable dividends and include them in income on the date of receipt. Subject to applicable limitations, dividends paid to certain non-corporate U.S. holders will be taxable at favorable rates applicable to long-term capital gains. The dividend income will include any amounts withheld by the Company or its paying agent in respect of Israeli taxes. The dividend will be treated as foreign-source income and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

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

Subject to applicable limitations that vary depending upon a U.S. holder's particular circumstances, Israeli taxes withheld from dividends at a rate not exceeding any applicable rate provided by the U.S.-Israel income tax treaty may be creditable against the U.S. holder's U.S. federal income tax liability. The limitation on foreign taxes credit is calculated separately with respect to specific classes of income. Instead of claiming a credit, a U.S. holder may, at the U.S. holder's election, deduct the otherwise creditable foreign taxes in computing the taxable income for the year, subject to generally applicable limitations under U.S. federal income tax law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits and the deductibility of foreign taxes in their particular circumstances.

Sale and Other Disposition of the Company's Shares

Gain or loss realized on the sale or other disposition of the Company's shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. holder owned the shares for more than one year. The amount of gain or loss will be equal to the difference between the U.S. holder's tax basis in the shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company Rules

The Company believes that it was not a PFIC for the taxable year of 2017. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be a PFIC for any taxable year. If the Company were a PFIC for any taxable year during which a U.S. holder owned a share in the Company, certain adverse consequences could apply to the U.S. holder. Specifically, gain recognized by a U.S. holder on a sale or other disposition of a share would be allocated ratably over the U.S. holder's holding period for the share. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. holder on the Company's shares during the preceding three years or the U.S. holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. Certain elections (such as a mark-to-market election) may be available to U.S. holders and may result in alternative tax treatment. In addition, if the Company were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate holders would not apply. If the Company were a PFIC for any taxable year in which a U.S. holder owned the Company's shares, the U.S. holder would generally be required to file annual returns with the Internal Revenue Service, or the IRS, on IRS Form 8621.

Information Reporting and Backup Withholding

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

Certain U.S. holders who are individuals and certain entities closely-held by individuals may be required to report on IRS Form 8938 information relating to their holdings of the Company's shares, subject to certain exceptions (including an exception for securities held in accounts maintained by U.S. financial institutions). U.S. holders should consult their tax advisers regarding the application of these rules in the U.S. holders' particular circumstances.

Israeli Tax Considerations

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

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

Taxation of Israeli Companies

General Corporate Tax Structure

Generally, Israeli companies were subject to corporate tax at the rate of 26.5% for the 2015 tax year, 25% for the 2016 tax year and 24% for the 2017 tax year. Under an amendment to the Israeli Income Tax Ordinance enacted in December 2016, the corporate tax rate will decrease to 23% for 2018 and subsequent tax years. Israeli companies are generally subject to capital gains tax at the corporate tax rate.

Capital Gains Tax on Sales of Our Ordinary Shares

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

Taxation of Israeli Residents

The tax rate generally applicable to real capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a significant shareholder at any time during the 12-month period preceding such sale, the tax rate will be 30%. For this purpose, a significant shareholder is one that holds, directly or indirectly, including with others, at least 10% of certain means of control in a company.

Israeli companies are generally subject to the corporate tax rate (see above) on capital gains derived from the sale of shares listed on a stock market.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the Israeli CPI each year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which exceeds such threshold. For this purpose, taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions. Under an amendment to the Israeli Income Tax Ordinance enacted in December 2016, for 2017 and subsequent years the rate of High Income Tax will increase to 3% and will be applicable to annual income exceeding NIS 640,000 (linked to the CPI each year) (NIS 641,880 in 2018).

Taxation of Non-Israeli Residents

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

In addition, under the U.S.-Israel income tax treaty, the sale of our ordinary shares by a shareholder who qualifies as a resident of the United States within the meaning of the U.S.-Israel income tax treaty and who is entitled to claim the benefits afforded to such person by the U.S.-Israel income tax treaty, referred to as a treaty U.S. resident, and who holds its ordinary shares as a capital asset, is also exempt from Israeli capital gains tax unless (i) the treaty U.S. resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, (ii) the capital gains arising from such sale are attributable to a permanent establishment of the treaty U.S. resident that is located in Israel, or (iii) the U.S. resident, if an individual, is present in Israel for at least 183 days during the taxable year. However, under the U.S.-Israel income tax treaty, a treaty U.S. resident would be permitted to claim a credit for taxes paid in Israel against the U.S. federal income tax imposed on the sale, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel income tax treaty does not relate to U.S. state or local taxes.

Taxation of Dividends Paid on Our Ordinary Shares

Taxation of Israeli Residents

Individuals who are Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless the recipient is a significant shareholder (as defined above) at any time during the 12-month period preceding the distribution, in which case the applicable tax rate is 30%. The company distributing the dividend is required to withhold tax at the rate of 25% (a different rate may apply to dividends paid on shares deriving from the exercise of stock options or other equity-based awards granted as compensation to employees or office holders of the company). Companies which are Israeli residents are generally exempt from income tax on the receipt of dividends from another Israeli company, unless the source of such dividends is located outside of Israel, in which case tax will generally apply at a rate of 25%.

For information with respect to the applicability of Israeli High Income Tax on distributions of dividends, see "– Capital Gains Tax on Sales of Our Ordinary Shares - Taxation of Israeli Residents" above.

Taxation of Non-Israeli Residents

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25% unless the recipient is a significant shareholder at any time during the 12-month period preceding the distribution, in which case the applicable tax rate will be 30%. The company distributing the dividend is required to withhold tax at the source at the rate of 25%.

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

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

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. *STATEMENT BY EXPERTS*

Not applicable.

H. *DOCUMENTS ON DISPLAY*

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, applicable to foreign private issuers. As a foreign private issuer, we are exempt from certain rules and regulations under the Exchange Act prescribing the content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchase and sale of our ordinary shares. In addition, we are not required to file reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file annual reports with the SEC on Form 20-F containing financial statements audited by an independent accounting firm. We also furnish reports to the SEC on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year and other material information, in accordance with the reporting requirements applicable to us as a dual listed company and as required due to our controlling shareholder's reporting obligations with respect to us. You may read and copy any document we file, including any exhibits, with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Substantially all of our SEC filings are also available to the public at the SEC's website at <http://www.sec.gov> and as of July 2007 also at the TASE's website at <http://maya.tase.co.il> and at the Israeli Securities Authority's website at <http://www.magna.isa.gov.il>.

I. *SUBSIDIARY INFORMATION*

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the course of our normal operations, we are exposed to market risks including fluctuations in foreign currency exchange rates, interest rates and the Israeli CPI. We are exposed to currency risks primarily as a result of purchasing inventory and fixed assets mainly in U.S. dollars while almost all of our cash receipts are in NIS. A substantial amount of our cash payments are incurred in, or linked to foreign currencies. In particular, in 2016 and 2017, such payments represented approximately 14% and 16%, respectively, of total cash outflows (including payments of principal and interest on our debentures). Also, we are exposed to interest rate risks through our hedging instruments and to possible fluctuations in the Israeli CPI through our Series F, H and J debentures.

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

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

As of December 31, 2017, we had three outstanding series of debentures, which are linked to the Israeli CPI in an aggregate principal amount of approximately NIS 1.7 billion. As of December 31, 2017, we had forward Israeli CPI / NIS transactions, in a total amount of approximately NIS 0.5 billion, with an average maturity period of seven 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:

	As of December 31,					
	2015		2016		2017	
	Par Value	Fair Value	Par Value	Fair Value	Par Value	Fair Value
	(In NIS millions)					
Forward contracts on foreign currency exchange rate (mainly US\$–NIS)	98	1	95	1	105	(1)
Forward contracts on Israeli CPI rate	1,200	(32)	800	(22)	500	(17)
Options on the foreign currency exchange rate (mainly US\$–NIS)	137	-	(95)	1	(105)	1
Total	1,435	(31)	800	(20)	500	(17)

Sensitivity information

Without taking into account our hedging instruments and based upon our debt outstanding as at December 31, 2017, fluctuations in foreign currency exchange rates, or the Israeli CPI would affect us as follows:

an increase of 1% of the Israeli CPI would result in an increase of approximately NIS 2.0 million in our financing expenses;

a devaluation of the NIS against the U.S. dollar of 1% would increase our financing expenses by approximately NIS 0.1 million.

For additional details see note 21 to our financial statements, included elsewhere in this report.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2017, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Management Annual Report on Internal Control Over Financial Reporting

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

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

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting, as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on our assessment, management believes that as of December 31, 2017 our internal control over financial reporting is effective based on these criteria.

Attestation Report of the Registered Public Accounting Firms

The effectiveness of management's internal control over financial reporting as of December 31, 2017 has been audited by our independent registered public accounting firm, Somekh Chaikin, a member firm of KPMG International and its report as of March 25, 2018, expresses an unqualified opinion on the Company's internal control over financial reporting.

This report is included in page F-3 of this Form 20-F.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Baytel qualifies as "audit committee financial expert" as defined in Item 16A of Form 20-F. Ms. Baytel qualifies as an independent director under the independence standards applicable to listed company audit committee members, pursuant to Rule 10A-3 under the Securities Exchange Act.

ITEM 16B. CODE OF ETHICS

Our Code of Ethics applies to all of our officers, directors and employees. We have posted a copy of our Code of Ethics on our website at <http://investors.cellcom.co.il> under "Investor Relations – Corporate Governance – Legal and Corporate - Code of Ethics."

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Somekh Chaikin, a member firm of KPMG International, served as our sole independent registered public accounting firm until May 2016. From May 2016 until July 2017, Somekh Chaikin and Keselman & Keselman, a member of PricewaterhouseCoopers International Limited, served as our joint independent registered public accounting firms. As of July 25, 2017 Keselman & Keselman concluded their services and Somekh Chaikin returned to being our sole independent registered public accounting firm. See Item 16F below.

These accountants billed the following fees to us for professional services in each of those fiscal years:

	<u>2016</u>	<u>2017</u>
	<u>(NIS in thousands)</u>	
Audit Fees	2,575	2,370
Tax Fees	175	73
Total	<u>2,750</u>	<u>2,443</u>

“Audit Fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC. These fees also include accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time. “Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance, tax advice, other than in connection with the audit. Tax compliance involves audit of original and amended tax returns, tax planning and tax advice.

Our Audit Committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants, and the maximum pre-approved fees that may be paid as compensation for each pre-approved service in those categories. Any proposed services exceeding the maximum pre-approved fees or audit matters that were not pre- approved require specific approval by the Audit Committee.

The Audit Committee has delegated part of its pre-approval authority to the chairman of the Audit Committee, subject to ratification by the entire Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On July 25, 2017, Keselman & Keselman declined to stand for re-election as our joint independent registered public accounting firm together with Somekh Chaikin by mutual consent with us. Keselman & Keselman's audit report on our consolidated financial statements for the fiscal year ended December 31, 2016 (the only consolidated financial statements of ours that they audited) did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During our fiscal year ended December 31, 2016 and the subsequent interim period through July 2017, there were no disagreements between us and Keselman & Keselman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Keselman & Keselman's satisfaction, would have caused Keselman & Keselman to make reference to the matters in connection with their reports on our consolidated financial statements. During our fiscal year ended December 31, 2016 and the subsequent interim period through July 2017, there were no "reportable events," as that term is described in Item 16F(a)(1)(v) of Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the NYSE:

Nominating/Corporate Governance Committee - Under Section 303A.04 of the LCM, a U.S. domestic listed company, other than a controlled company, must have a nominating/corporate governance committee composed entirely of independent directors. We do not have a nominating/corporate governance committee as we are not required to have such a committee under the Israeli Companies Law.

Compensation Committee - Under Section 303A.05 of the LCM, a U.S. domestic listed company, other than a controlled company, must have a compensation committee composed entirely of independent directors that operates pursuant to a written charter addressing its purpose, responsibilities and membership qualifications and may receive counseling from independent consultants, after evaluating their independence. We have a compensation committee whose purpose, responsibilities and membership qualifications are governed by the Israeli Companies Law. There are no specific independence evaluation requirements for outside counsel. Israeli Companies law requires our compensation committee to include a majority of external directors (who are also independent directors). Our compensation committee is currently composed entirely of independent directors.

Separate Meetings of Non-Management Directors - Under Section 303A.03 of the LCM, the non-management directors of each U.S. domestic listed company must meet at regularly scheduled executive sessions without management. We do not have a similar requirement under the Israeli Companies Law, and our independent directors do not meet separately from directors who are not independent, other than in the context of audit committee meetings.

Audit Committee - Under Section 303A.06 of the LCM, domestic listed companies are required to have an audit committee that complies with the requirements of Rule 10A-3 of the Securities and Exchange Act of 1934. Rule 10A-3 requires the audit committee of a U.S. company to be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, and that each such firm must report directly to the audit committee. However, Rule 10A-3 provides that foreign private issuers may comply with applicable home country law that (i) requires or permits shareholders to appoint the registered public accounting firm or (ii) prohibits the delegation of responsibility to the issuer's audit committee without being in conflict with Rule 10A-3. Pursuant to the Israeli Companies Law, our registered public accounting firm is appointed by the shareholders at the annual meeting of shareholders. Our audit committee is responsible for recommending to the shareholders the appointment of our registered public accounting firm and to pre-approve the amounts to be paid to our registered public accounting firm. Pursuant to our audit committee charter, our audit committee is responsible for overseeing the work of our registered public accounting firms.

Equity Compensation Plans - Under Section 303A.08 of the LCM, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule. We follow the requirements of the Israeli Companies Law, under which approval of equity-compensation plans and material revisions thereto is within the authority of the board of directors. However, any compensation to directors or the chief executive officer, including equity based compensation, generally requires the approval of the compensation committee, the board of directors and the shareholders, in that order. The compensation of office holders is generally required to comply with a shareholder-approved compensation policy, which is required to include a monetary cap on the value of equity compensation that may be granted to any office holder. Our compensation policy complies with that requirement.

Corporate Governance Guidelines - Under Section 303A.09 of the LCM, domestic listed companies must adopt and disclose their corporate governance guidelines. We do not have a similar requirement under the Israeli Companies Law and therefore, other than as disclosed in this annual report on Form 20-F, we do not to disclose our corporate governance guidelines.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-77 of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1	Updated Articles of Association and Memorandum of Association *
2.1	Form of Ordinary Share Certificate⁽¹⁾
4.2	Series B Indenture dated December 21, 2005 and an addendum dated February 27, 2006 between Cellcom and Hermetic Trust (1975) Ltd.⁽¹⁾
4.4	Series D Indenture dated September 20, 2007, between Cellcom and Hermetic Trust (1975) Ltd.⁽²⁾
4.5	Series E Indenture dated March 31, 2009, between Cellcom and Hermetic Trust (1975) Ltd.⁽³⁾
4.6	Shelf Prospectus Indenture dated July 14, 2011, between Cellcom and Hermetic Trust (1975) Ltd.⁽⁴⁾
4.7	Shelf Prospectus Indenture dated March 7, 2012, between Cellcom and Strauss Lazar Trust Company (1992) Ltd.⁽⁴⁾
4.7.1	Amendment and Addendum no. 1 to the Indenture from January 19, 2012, dated March 7, 2012, between Cellcom and Strauss Lazar Trust Company (1992) Ltd.⁽⁴⁾
4.8	Series H and I Indenture dated June 23, 2014, between Cellcom and Mishmeret Trust Services Company Ltd., as amended in Addendum no.1 dated June 26, 2014⁽⁵⁾
4.9	Series J and K Indenture dated September 25, 2016, between Cellcom and Mishmeret Trust Services Company Ltd.⁽⁸⁾
4.10	Series L Indenture dated January 21, 2018, between Cellcom and Strauss Lazar Trust Company (1992) Ltd.*
4.11	Amended 2006 Share Incentive Plan⁽⁶⁾
4.12	Registration Rights Agreement dated March 15, 2006 among Cellcom, Goldman Sachs International, DIC, DIC Communications and Technology Ltd. and PEC Israel Economic Corporation⁽¹⁾
4.13	Amended Non-Exclusive General License for the Provision of Mobile Radio Telephone Services in the Cellular Method dated June 27, 1994*
4.14	Netvision Ltd. Merger Agreement⁽⁴⁾
4.15	Amended 2015 Share Incentive Plan⁽⁷⁾
4.16	Instruments defining the terms of loans provided to Cellcom and series K private placement agreement We agree to furnish to the SEC upon request, copies of our such agreements.
8.1	Subsidiaries of the Registrant²
12.1	Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act *
12.2	Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act *
13.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act *
15.1	Consent of Independent Registered Public Accounting Firm - Somekh Chaikin *

Exhibit Number	Description
15.2	Consent of Independent Registered Public Accounting Firm - Keselman & Keselman *
15.3	Letter of Keselman & Keselman addressed to the SEC pursuant to Item 16F *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

⁽¹⁾ Incorporated by reference to our registration statement on Form F-1 (registration no. 333-140030) filed with the SEC on January 17, 2007.

⁽²⁾ Incorporated by reference to our annual report on Form 20-F for the year 2007 filed with the SEC on March 18, 2008.

⁽³⁾ Incorporated by reference to our annual report on Form 20-F for the year 2009 filed with the SEC on March 2, 2010.

⁽⁴⁾ Incorporated by reference to our annual report on Form 20-F for the year 2011 filed with the SEC on March 7, 2012.

⁽⁵⁾ Incorporated by reference to our annual report on Form 20-F for the year 2014 filed with the SEC on March 16, 2015.

⁽⁶⁾ Incorporated by reference to our registration statement on Form S-8 filed with the SEC on November 15, 2012.

⁽⁷⁾ Incorporated by reference to our registration statement on Form S-8 filed with the SEC on August 13, 2015.

⁽⁸⁾ Incorporated by reference to our annual report on Form 20-F for the year 2016 filed with the SEC on March 20, 2017.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CELLCOM ISRAEL LTD.

By: /s/ Nir Sztern
Name: Nir Sztern
Title: President and Chief Executive Officer

Date: March 26, 2018

**Cellcom Israel Ltd.
and Subsidiaries**

Consolidated Financial Statements

**As at December 31, 2017
(Audited)**

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Somekh Chaikin
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Cellcom Israel Ltd.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated statement of financial position of Cellcom Israel Ltd. and subsidiaries (the Company) as of December 31, 2017, the related consolidated statement of income, comprehensive income, changes in equity, and cash flows for the year ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 2F to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition as of January 1, 2017 due to the adoption of International Financial Reporting Standard No. 15 Revenue from Contracts with Customers.

Convenience Translation

The consolidated financial statements as of and for the year ended December 31, 2017 have been translated into United States dollars ("dollars") solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Israeli Shekels have been translated into dollars on the basis set forth in Note 2D to the consolidated financial statements.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

We have served as the Company's auditor since 1994.

Tel Aviv, Israel
March 25, 2018



Report of Independent Registered Public Accounting Firms

**To the Shareholders of
Cellcom Israel Ltd.**

We have audited the accompanying consolidated statements of financial position of Cellcom Israel Ltd. (hereinafter – “the Company”) and subsidiaries as of December 31, 2016 and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year ended December 31, 2016. The Company’s management and Board of Directors are responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and Board of Directors, and evaluating the overall financial statement presentation. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2016 and the results of their operations and their cash flows for the year ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International
Tel Aviv, Israel

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers
International Limited

March 14, 2017



Somekh Chaikin
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Cellcom Israel Ltd.

We have audited the accompanying consolidated statements of income, comprehensive income, changes in equity, and cash flows of Cellcom Israel Ltd. (hereinafter – “the Company”) and subsidiaries for the year ended December 31, 2015. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of the Company and subsidiaries’ operations and their cash flows for the year ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International
Tel Aviv, Israel
March 14, 2016

Consolidated Statements of Financial Position

		December 31, 2016	December 31, 2017*	Convenience translation into US dollar (Note 2D) December 31, 2017*
	Note	NIS millions	NIS millions	US\$ millions
Assets				
Cash and cash equivalents	8	1,240	527	152
Current investments, including derivatives		284	364	105
Trade receivables	9	1,325	1,280	369
Current tax assets	28	25	4	1
Other receivables	9	61	89	26
Inventory	10	64	70	20
Total current assets		2,999	2,334	673
Trade and other receivables	9	796	895	258
Property, plant and equipment, net	11	1,659	1,598	461
Intangible assets and others, net	12	1,207	1,260	364
Deferred tax assets	28	1	-	-
Total non-current assets		3,663	3,753	1,083
Total assets		6,662	6,087	1,756
Liabilities				
Current maturities of debentures and of loans from financial institutions	17	863	618	179
Trade payables and accrued expenses	13	675	652	188
Current tax liabilities	28	-	4	1
Provisions	14	108	91	26
Other payables, including derivatives	15	279	277	80
Total current liabilities		1,925	1,642	474
Long-term loans from financial institutions	17	340	462	134
Debentures	17	2,866	2,360	681
Provisions	14	30	21	6
Other long-term liabilities	16	31	15	4
Liability for employee rights upon retirement, net	18	12	15	4
Deferred tax liabilities	28	118	131	38
Total non-current liabilities		3,397	3,004	867
Total liabilities		5,322	4,646	1,341
Equity attributable to owners of the Company	19			
Share capital		1	1	-
Cash flow hedge reserve		(1)	-	-
Retained earnings		1,322	1,436	414
Non-controlling interests		18	4	1
Total equity		1,340	1,441	415
Total liabilities and equity		6,662	6,087	1,756

Date of approval of the consolidated financial statements: March 25, 2018.

* See Note 2F regarding the early adoption of IFRS 15, *Revenue from Contracts with Customers*.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

		Year ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2017*	Convenience translation into US dollar (Note 2D) Year ended December 31, 2017* US\$ millions
	Note	NIS millions	NIS millions	NIS millions	
Revenues	22	4,180	4,027	3,871	1,117
Cost of revenues	23	(2,763)	(2,702)	(2,680)	(773)
Gross profit		1,417	1,325	1,191	344
Selling and marketing expenses	24	(620)	(574)	(479)	(138)
General and administrative expenses	25	(465)	(420)	(426)	(123)
Other income (expenses), net	26	(22)	(21)	11	3
Operating profit		310	310	297	86
Financing income		55	46	52	15
Financing expenses		(232)	(196)	(196)	(57)
Financing expenses, net	27	(177)	(150)	(144)	(42)
Profit before taxes on income		133	160	153	44
Taxes on income	28	(36)	(10)	(40)	(11)
Profit for the year		97	150	113	33
Attributable to:					
Owners of the Company		95	148	112	33
Non-controlling interests		2	2	1	-
Profit for the year		97	150	113	33
Earnings per share	19				
Basic earnings per share (in NIS)		0.95	1.47	1.11	0.32
Diluted earnings per share (in NIS)		0.95	1.47	1.10	0.32
Weighted-average number of shares used in the calculation of basic earnings per share (in shares)		100,589,458	100,604,578	100,654,935	100,654,935
Weighted-average number of shares used in the calculation of diluted earnings per share (in shares)		100,589,530	100,698,306	100,889,661	100,889,661

* See Note 2F regarding the early adoption of IFRS 15, *Revenue from Contracts with Customers*.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Year ended December 31, 2015 NIS millions	Year ended December 31, 2016 NIS millions	Year ended December 31, 2017 NIS millions	Convenience translation into US dollar (Note 2D) Year ended December 31, 2017 US\$ millions
Profit for the year	97	150	113	33
Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to profit or loss				
Changes in fair value of cash flow hedges transferred to profit or loss, net of tax	1	1	1	-
Total other comprehensive income for the year that after initial recognition in comprehensive income was or will be transferred to profit or loss, net of tax	1	1	1	-
Other comprehensive income items that will not be transferred to profit or loss				
Re-measurement of defined benefit plan, net of tax	(2)	(1)	-	-
Total other comprehensive loss for the year that will not be transferred to profit or loss, net of tax	(2)	(1)	-	-
Total other comprehensive income (loss) for the year, net of tax	(1)	-	1	-
Total comprehensive income for the year	96	150	114	33
Total comprehensive income attributable to:				
Owners of the Company	94	148	113	33
Non-controlling interests	2	2	1	-
Total comprehensive income for the year	96	150	114	33

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

	Attributable to owners of the Company				Non-controlling interests	Total equity	Convenience translation into US dollar (Note 2D)	
	Share capital	Capital reserve	Retained earnings	Total			US\$ millions	
							NIS millions	
Balance as of January 1, 2015	1	(3)	1,078	1,076	16	1,092		
Comprehensive income for the year								
Profit for the year	-	-	95	95	2	97		
Other comprehensive income (loss) for the year, net of tax	-	1	(2)	(1)	-	(1)		
Transactions with owners, recognized directly in equity								
Share based payments	-	-	3	3	-	3		
Dividend to non-controlling interest in a subsidiary	-	-	-	-	(1)	(1)		
Options written over non-controlling interests in a consolidated company	-	-	(4)	(4)	(1)	(5)		
Balance as of December 31, 2015	1	(2)	1,170	1,169	16	1,185		
Comprehensive income for the year								
Profit for the year	-	-	148	148	2	150		
Other comprehensive income (loss) for the year, net of tax	-	1	(1)	-	-	-		
Transactions with owners, recognized directly in equity								
Share based payments	-	-	5	5	1	6		
Dividend to non-controlling interest in a subsidiary	-	-	-	-	(1)	(1)		
Balance as of December 31, 2016	1	(1)	1,322	1,322	18	1,340	386	
Comprehensive income for the year								
Profit for the year	-	-	112	112	1	113	33	
Other comprehensive income for the year, net of tax	-	1	-	1	-	1	-	
Transactions with owners, recognized directly in equity								
Share based payments	-	-	2	2	-	2	-	
Derecognition of non-controlling interests due to loss of control in a consolidated company (see Note 7B)	-	-	-	-	(15)	(15)	(4)	
Balance as of December 31, 2017	1	-	1,436	1,437	4	1,441	415	

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2017*	Convenience translation into US dollar (Note 2D) Year ended December 31, 2017*
	NIS millions	NIS millions	NIS millions	US\$ millions
Cash flows from operating activities				
Profit for the year	97	150	113	33
Adjustments for:				
Depreciation and amortization	562	534	555	160
Share based payments	3	6	2	-
Loss (gain) on sale of property, plant and equipment	(1)	10	(1)	-
Gain on sale of shares in a consolidated company (see Note 7B)	-	-	(10)	(3)
Income tax expense	36	10	40	11
Financing expenses, net	177	150	144	42
Changes in operating assets and liabilities:				
Change in inventory	4	21	(6)	(2)
Change in trade receivables (including long-term amounts)	209	(28)	132	38
Change in other receivables (including long-term amounts)	(34)	(5)	(191)	(55)
Change in trade payables, accrued expenses and provisions	(54)	-	(27)	(8)
Change in other liabilities (including long-term amounts)	(95)	20	28	8
Payments for derivative hedging contracts, net	-	-	(3)	(1)
Income tax paid	(68)	(88)	(44)	(12)
Income tax received	-	1	42	12
Net cash from operating activities	836	781	774	223
Cash flows used in investing activities				
Acquisition of property, plant, and equipment	(305)	(295)	(346)	(100)
Additions to intangible assets and others	(91)	(73)	(237)	(68)
Dividend received	2	-	-	-
Change in current investments, net	231	(9)	(77)	(22)
Proceeds from sale of property, plant and equipment	4	2	1	-
Interest received	15	11	12	3
Repayment of a long-term deposit	48	-	-	-
Proceeds from sale of shares in a consolidated company, net of cash disposed (see Note 7B)	-	-	3	1
Net cash used in investing activities	(96)	(364)	(644)	(186)

* See Note 2F regarding the early adoption of IFRS 15, *Revenue from Contracts with Customers*.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2017*	Convenience translation into US dollar (Note 2D) Year ended December 31, 2017*
	NIS millions	NIS millions	NIS millions	US\$ millions
Cash flows used in financing activities				
Payments for derivative contracts, net	(32)	(13)	(3)	(1)
Receipt of long-term loans from financial institutions	-	340	200	58
Repayment of debentures	(873)	(732)	(864)	(249)
Proceeds from issuance of debentures, net of issuance costs	(3)	653	-	-
Dividend paid	(1)	(1)	(1)	-
Interest paid	(227)	(185)	(175)	(51)
Net cash from (used in) financing activities	(1,136)	62	(843)	(243)
Changes in cash and cash equivalents	(396)	479	(713)	(206)
Cash and cash equivalents as at the beginning of the year	1,158	761	1,240	358
Effect of exchange rate fluctuations on cash and cash equivalents	(1)	-	-	-
Cash and cash equivalents as at the end of the year	761	1,240	527	152

* See Note 2F regarding the early adoption of IFRS 15, *Revenue from Contracts with Customers*.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1 - Reporting Entity

- A.** Cellcom Israel Ltd. ("the Company") is a company incorporated and domiciled in Israel and its official address is 10 Hagavish Street, Netanya 4250708, Israel. The consolidated financial statements of the Group as at December 31, 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group operates and maintains a cellular mobile telephone system in Israel and provides cellular and fixed line telecommunications services, internet services, international calls services, television over the internet services (known as Over the Top TV services, or OTT TV services) and transmission services. The Company is controlled by Koor Industries Ltd., a wholly owned subsidiary of Discount Investment Corporation Ltd. ("DIC"), which is controlled by companies controlled by Mr. Eduardo Elsztein.
- B. Material event in the reporting period - Change in estimate**

In the reporting period, the Company has changed the expected useful life of certain fixed and intangible asset items. For further information, see Note 2E, regarding the Basis of Preparation of the Financial Statements.

Note 2 - Basis of Preparation of the Financial Statements**A. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by the Company's Board of Directors on March 25, 2018.

B. Functional and presentation currency

These consolidated financial statements are presented in New Israeli Shekels ("NIS"), which is the Group's functional currency, and are rounded to the nearest million unless otherwise indicated. NIS is the currency that represents the primary economic environment in which the Group operates.

C. Basis of measurement

These consolidated financial statements have been prepared on the basis of historical cost except for the following assets and liabilities: current investments and derivative financial instruments that are measured at fair value through profit or loss, deferred tax assets and liabilities, assets and liabilities in respect of employee benefits and provisions.

For further information regarding the measurement of these assets and liabilities see Note 3, regarding Significant Accounting Policies.

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**D. Convenience translation into U.S. dollars ("dollars" or "\$")**

For the convenience of the reader, the reported NIS figures as of December 31, 2017 and for the year then ended, have been presented in dollars, translated at the representative rate of exchange as of December 31, 2017 (NIS 3.467 = US\$ 1.00). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

E. Use of estimates and judgments*Use of estimates*

Information about estimates, uncertainty and critical judgments about provisions and contingent liabilities, is described in Notes 14 and 31. In addition, information about critical estimates, made while applying accounting policies and that have the most significant effect on the consolidated financial statements are described below:

Impairment testing of trade and other receivables

The financial statements include an impairment loss in trade and other receivables which properly reflect, according to management's estimation, the potential loss from non-recoverable amounts. The Group provides for impairment loss based on its experience in collecting past debts, as well as on information on specific debtors. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. See also Note 21.

Impairment testing and useful life of assets

The Group regularly reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. See also Note 3H.

The useful economic life of the Group's assets is determined by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. The useful economic life of licenses is based on the duration of the license agreement. The useful economic life of capitalized customer acquisition costs is based on the expected service period from these contracts. See also Notes 3D and 3F.

Impairment testing of goodwill

The Group reviews a cash generating unit containing goodwill for the purpose of testing it for impairment at least once a year. Determining the recoverable amount requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows which represents market estimates as for the time value of the money and the specific risks that are related to the cash-generating unit. Determining the estimates of the future cash flows is based on management past experience and management best estimates as for the economic conditions that will exist over the rest of the remaining useful life of the cash generating unit. Further details are given in Note 3H.

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

Legal claims

In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the Group takes into consideration the opinion of its legal counsels and their best professional judgment, the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates. See also Note 31.

Uncertain tax positions

When assessing amounts of current and deferred taxes, the Group takes into consideration the effect of the uncertainty that its tax positions will be accepted and of the Group incurring any additional tax and interest expenses. The Group is of the opinion that the cumulative tax liability is fair for all the years in respect of which final tax assessments have not yet been received, based on an analysis of a number of matters including interpretations of tax laws and the Group's past experience. This assessment is based on estimates and assumptions that may also include assessments and exercising judgment regarding future events. It is possible that new information will become known in future periods that will require the Group to change its estimate regarding the tax liability that was recognized, and any such changes will be expensed immediately in that period. See also Note 28.

Change in estimates

During the year ended December 31, 2017 management has updated estimates as follows:

1. Towards the end of the Company's 2G and 3G frequencies (the "Frequencies") original amortization period, the Company's annual depreciation committee examined the estimated useful life of the Frequencies. Based on Company's estimate, the Company will continue to use the Frequencies at least for the next 10 years.

The estimated useful life of the Frequencies was determined in the past according to the period of the Company's cellular license (until 2022).

According to applicable law, the Company's cellular license may be extended for additional 6-year periods, subject to the requirements set in the license. The Company estimates that based on its experience and acquaintance with the communications market in Israel, if current conditions continue, there is high probability that the license will be extended for an additional term of 6 years.

In light of the aforesaid, the estimated useful life of the Frequencies has been re-evaluated for the first time, for an additional period of ten years, starting from the beginning of the second quarter of 2017 and ending in 2028 (instead of 18-20 years ending in 2022, as originally estimated).

2. In light of the accumulated experience in the Group's operation in connection with internet services and television over the internet services, the Company's annual depreciation committee examined the estimated useful life of certain fixed asset items that are used for these services. Following this examination, the estimated useful life of these items has been re-evaluated for the first time, starting from the beginning of the fourth quarter of 2017 to 3-6 years from their purchase date (instead of 2-3 years, as originally estimated).

The effect of these changes on the consolidated financial statements, in current and future years is as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Subsequently</u>
	<u>NIS millions</u>					
Decrease (Increase) in depreciation expenses	19	33	17	5	6	(80)

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements (cont'd)**F. Changes in the accounting policies****IFRS15, Revenue from Contracts with Customers**

Effective January 1, 2017 the Group early adopted International Financial Reporting Standard 15 ("IFRS 15" or "the standard"), which provides guidance on revenue recognition.

The standard introduces a new five step model for recognizing revenue from contracts with customers:

1. Identifying the contract with the customer.
2. Identifying separate performance obligations in the contract.
3. Determining the transaction price.
4. Allocating the transaction price to separate performance obligations.
5. Recognizing revenue when the performance obligations are satisfied.

The standard was applied using the cumulative effect approach as from the initial date of application.

In respect of contracts which have not been concluded until the date of transition, such change did not have a material impact on the retained earnings at the initial date of application.

In the framework of the initial application of the standard, the Group has chosen to apply the following exemptions:

1. Application of the cumulative effect approach only for contracts not completed at the transition date; and
2. Examining the aggregate effect of contract changes that occurred before the date of initial application, instead of examining each change separately.

The main impact of the standard on the Group's financial statements is that customer acquisition costs are capitalized when it is expected that the Group will recover these costs, instead of recognizing these costs in profit or loss as incurred, as was done prior to the adoption of the standard. Accordingly, incremental incentives and commissions paid to Group employees and resellers for securing contracts with customers, are recognized as an asset and are amortized to profit or loss, in accordance with the expected service period from these contracts (over a period of 2-3 years). Such customer acquisition costs capitalization, had a material positive effect on the Group's results of operations for 2017, which is expected to continue in the coming years, and will be leveled off in later years.

In the statements of cash flows, customer acquisition costs paid are presented as part of cash flows used in investing activities and the amortization of capitalized customer acquisition costs, is presented under depreciation and amortization as part of cash flows from operating activities.

The Group applies the practical exemption specified in the standard and recognizes customer acquisition costs in profit or loss when the expected amortization period of these costs is one year or less.

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

F. Changes in the accounting policies (cont'd)

IFRS15, Revenue from Contracts with Customers (cont'd)

The tables below present the effects on the Group's consolidated statements of financial position as at December 31, 2017 and on the Group's consolidated statements of income for the year ended at December 31, 2017, assuming that the previous revenue recognition policy would have continued in that period:

The effect on the consolidated statements of financial position as at December 31, 2017:

	According to the previous policy	Effect of the standard*	According to IFRS 15
	NIS millions		
Intangible assets and others, net	1,167	93	1,260
Current tax assets, net	22	(22)	-
Retained earnings	1,365	71	1,436

The effect on the consolidated statements of income for the year ended December 31, 2017:

	According to the previous policy	Effect of the standard*	According to IFRS 15
	NIS millions		
Revenues	3,871	-	3,871
Cost of revenues	(2,680)	-	(2,680)
Gross profit	1,191	-	1,191
Selling and marketing expenses	(572)	93	(479)
General and administrative expenses	(426)	-	(426)
Other income, net	11	-	11
Operating profit	204	93	297
Financing income	52	-	52
Financing expenses	(196)	-	(196)
Financing expenses, net	(144)	-	(144)
Profit before taxes on income	60	93	153
Taxes on income	(18)	(22)	(40)
Profit for the period	42	71	113
Attributable to:			
Owners of the Company	41	71	112
Non-controlling interests	1	-	1
Profit for the period	42	71	113
Earnings per share			
Basic earnings per share (in NIS)	0.40	0.71	1.11
Diluted earnings per share (in NIS)	0.40	0.70	1.10

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements (cont'd)

G. Changes in the accounting policies (cont'd)

IFRS15, Revenue from Contracts with Customers (cont'd)

The effect on the consolidated statements of cash flow for the year ended December 31, 2017:

	Year ended December 31, 2017		
	According to the previous policy	Effect of the standard*	According to IFRS 15
	NIS millions		
Net cash from operating activities	667	107	774
Net cash used in investing activities	(537)	(107)	(644)

* According to the standard, incremental costs of obtaining a contract with a customer are recognized as an asset when it is probable that the Group will recover those costs. Accordingly, incremental incentives and commissions paid to Group employees and resellers for securing contracts with customers, are recognized as an asset and amortized to profit or loss in accordance with the expected service period from these contracts.

Amendment to IAS 7, Statement of Cash Flows

According to the Amendment, it is required to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. These disclosures are to be provided with respect to the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values; and other changes.

The Amendment is applicable prospectively. The new disclosure requirements were included in Note 17 regarding Debentures and Long-term Loans from Financial Institutions.

H. Exchange rates and known Consumer Price Indexes are as follows:

	Exchange rates of US\$	Consumer Price Index (points)*
As of December 31, 2017	3.467	221.35
As of December 31, 2016	3.845	220.68
As of December 31, 2015	3.902	221.35
Change during the year:		
Year ended December 31, 2017	(9.83)%	0.30%
Year ended December 31, 2016	(1.46)%	(0.30)%
Year ended December 31, 2015	0.33%	(0.90)%

*According to 1993 base index.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group for all periods presented in these consolidated financial statements, except as described in changes in the accounting policies section in Note 2, regarding Basis of Preparation of the Financial Statements.

A. Basis of consolidation**1. Subsidiaries**

Subsidiaries are entities controlled directly or indirectly by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

2. Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company. Profit or loss and each component of other comprehensive income are attributable to the owners of the parent company and to non-controlling interests.

Issuance of put option to non-controlling interests

A put option issued by the Group to non-controlling interests that is settled in cash or another financial instrument is recognized as a liability at the present value of the exercise price. In subsequent periods, changes in the value of the liability in respect of put options are recognized in profit or loss according to the effective interest method.

The Group's share of a subsidiary's profits includes the share of the non-controlling interests to which the Group issued a put option.

3. Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

4. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, were eliminated in preparing the consolidated financial statements.

B. Foreign currency transactions

Transactions in foreign currencies are translated to NIS at the prevailing foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated to NIS at the prevailing foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to NIS at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognized in profit and loss.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**C. Financial instruments**

The Group early adopted IFRS 9 (2009), Financial Instruments, which included guidelines regarding the classification and measurement of financial assets, without early adopting all the other rules of the final version of IFRS 9 (2014), Financial Instruments, as mentioned in section R below. According to IFRS 9 (2009), an entity shall classify and measure its financial assets at amortized cost or at fair value, considering its business model for managing financial assets and with respect to the contractual cash flows characteristics of these financial assets.

(1) Non-derivative financial assetsInitial recognition of financial assets

The Group initially recognizes receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset acquisition or creation.

The Group subsequently measures financial assets at either fair value or amortized cost, as described below:

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- the Group has not elected to designate them at fair value through profit or loss in order to reduce or eliminate an accounting mismatch.

Financial assets measured at amortized cost include cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash balances available for immediate use and call deposits.

Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Financial assets measured at fair value

Financial assets other than those classified as measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in profit or loss.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**(1) Non-derivative financial assets (cont'd)**Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset. As to the Group's policy on impairment see Paragraph H.

Offset of financial instruments - See section 2 below.

(2) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. The Group subsequently measures financial liabilities at amortized cost using the effective interest method.

Non-derivative financial liabilities include debentures, loans from financial institutions and trade and other payables.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Offset of financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Change in terms of debt instruments

An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability. In addition to the aforesaid quantitative criterion, the Group examines, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments, therefore as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Expansion of debentures for cash

When expanding debentures for cash, debentures are initially measured at their fair value, which is the proceeds received from the issuance (since this is the best market which the issuer has an immediate access to), with no effect on profit or loss in respect of the difference between the proceeds from issuance and the market value of the tradable debentures close to their issuance.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**(3) Derivative financial instruments, including hedge accounting**

The Group holds derivative financial instruments to hedge its foreign currency and CPI risks exposures.

Derivatives are initially recognized at fair value; transaction costs that can be attributed are recognized to profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value. Changes in fair value are accounted for as follows:

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized through other comprehensive income directly in a hedging reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in the fair value are recognized in profit and loss when the hedged item is sold or leaves the Group's possession, and is presented under the same line item in the consolidated statements of income as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in comprehensive income and presented in the hedging reserve in equity remains there until the forecasted transaction occurs or is no longer expected to occur. The amount recognized in comprehensive income is transferred to profit and loss in the same period that the hedged item affects profit and loss.

Economic Hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies or linked to the CPI. Changes in the fair value of such derivatives are recognized in profit and loss, as financing income or expenses.

(4) Assets and liabilities linked to the Israeli CPI that are not measured at fair value

The carrying amount of CPI linked financial assets and liabilities are revalued in each period according to the actual rate of change in the CPI.

D. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site). Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Communications networks consist of several significant components with different useful lives. Each component is treated separately and is depreciated over its estimated useful life.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized in profit or loss.

Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the net disposal net proceeds with the carrying amount of property, plant and equipment and are recognized net within "other expenses, net" in profit or loss.

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

Depreciation is a systematic allocation of the depreciable amount of an asset over its estimated useful life. An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The annual depreciation rates for the current and comparative periods are as follows:

	%
Communications network	5-25
Control and testing equipment	15-25
Vehicles	15-33
Computers and hardware	15-33
Furniture and landline communications equipment	6-33

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the expected lease terms.

Depreciation methods, useful lives and residual values are reviewed at least at the end of each reporting year and adjusted if appropriate.

E. Rights of use of communications lines

The Group implements IFRIC 4, "Determining Whether an Arrangement Contains a Lease", which defines criteria for determining at the beginning of the arrangement, whether the right to use asset constitutes a lease arrangement.

According to IFRIC 4, as mentioned above, acquisition transactions of irrevocable rights of use of underwater cables capacity are treated as service receipt transactions. The amount which was paid for the rights of use of communications lines is recognized as a prepaid expense and is amortized on a straight-line basis over the period stated in the agreements, including the option period, which constitutes the estimated useful life of those capacities.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

F. Intangible assets and others

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. In subsequent periods goodwill is measured at cost less accumulated impairment losses.

Direct development costs associated with internally developed information system software, and payroll costs for employees devoting time to the software projects, incurred during the application development stage, are capitalized and recognized as an intangible asset. In subsequent periods, capitalized development expenditures are measured at cost less accumulated amortization, from the date which the asset is ready for use, and accumulated impairment losses.

Incremental customer acquisition costs are capitalized, from January 1, 2017, following the adoption IFRS 15, when it is expected that the Group will recover these costs. Costs of obtaining a contract that would have been incurred regardless of the contract being obtained are recognized as an expense when incurred. Costs incurred to fulfill a contract with a customer are recognized as an asset when they: relate directly to a contract the Group can specifically identify; they generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognized as an expense when incurred.

Accordingly, incremental incentives and commissions paid to Group employees and resellers for securing contracts with customers, are recognized as intangible assets. In subsequent periods, customer acquisition costs are measured at cost less accumulated amortization according to the specific anticipated contract period and accumulated impairment losses.

Customer relationships that are formed upon the acquisition of subsidiaries have a finite useful life and are amortized according to the expected benefits rate from these assets in each period.

Other intangible assets and others - licenses and frequencies, computer software and information systems costs are measured at cost less accumulated amortization and accumulated impairment losses and including direct costs necessary to prepare the asset for its intended use. In subsequent periods, these intangible assets are measured at cost less accumulated amortization.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. Amortization is calculated using the straight-line method, except for customer relationships as aforementioned (and up to 2019).

The annual amortization rates for the current and comparative periods are as follows:

	%
Licenses and Frequencies	4-7 (mainly 4)
Information systems	25
Software	15-25
Customer acquisition costs	33-50

Goodwill has an indefinite useful life and is not systematically amortized but tested for impairment at least once a year.

Amortization methods, useful lives and residual values are reviewed at least each year-end and adjusted if appropriate.

The Group examines the useful life of an intangible asset that is not periodically amortized at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**G. Inventory**

Inventory of cellular phone equipment, accessories and spare-parts are measured at the lower of cost and net realizable value. Cost is determined by the moving average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The Group periodically evaluates the condition and age of inventories and makes provisions for impairment of inventories accordingly.

H. Impairment**a. Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost, is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate of that asset. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

b. Property, plant and equipment and intangible assets and others

The carrying amounts of the Group's property, plant and equipment and finite lived intangible assets are reviewed at each reporting date, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, then the asset's recoverable amount is estimated.

In each reporting period the Group examines whether the carrying amount of the capitalized customer acquisition costs exceeds the balance of the consideration which the entity expects to receive in exchange for the services to which the asset relates, less the costs directly attributable to the provision of these services that were not recognized as expenses, and if necessary an impairment loss is recognized in profit or loss.

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill, or intangible assets that have indefinite useful lives.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**H. Impairment (cont'd)**

Cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The Group monitors goodwill at operating segments level.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

I. Employee benefits**a. Post-employment benefits**

Part of the Group's liability for post-employment benefits is covered by a defined contribution plan financed by deposits with insurance companies or with funds managed by a trustee. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligation of contribution to defined contribution pension plan is recognized as an expense in profit and loss in the periods during which services are rendered by employees. In addition, the Group has a net obligation in respect of defined benefit plan. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. This benefit is presented at present value deducting the fair value of any plan assets and is determined using actuarial assessment techniques which involves, among others, determining estimates regarding the capitalization rates, anticipated return on the assets, the rate of the increase in salary and the rates of employee turnover. There is significant uncertainty in respect to these estimates because of the long-term programs. For further information, see Note 18.

The Group recognizes immediately, directly in retained earnings through other comprehensive income, all re-measurements gains and losses arising from defined benefit plans. Interest costs and interest income on plan assets that were recognized in profit or loss are presented under financing income and expenses, respectively.

b. Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary retirement. Termination benefits for voluntary retirements are recognized as an expense if the Group has made an offer of voluntary retirement, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

c. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**I. Employee benefits****a. Share based payments**

The grant date fair value of options granted to employees is recognized as salaries and related expenses, with a corresponding increase in retained earnings, over the period that the employees become unconditionally entitled to the options.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, to consider exercise restrictions and behavioral considerations.

J. Provisions

A provision is recognized if the Group has a present legal or constructive obligation, as a result of a past event, that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date.

A provision for claims is recognized if the Group has a present legal or constructive obligation, as a result of a past event and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

K. Revenue**The accounting policy that was applied in periods prior to January 1, 2017**

Revenues derived from services, including cellular services, internet services, international calls services, fixed local calls, interconnect, roaming revenues, content and value added services, transmission services and television over the internet services, are recognized when the services are provided, in proportion to the stage of completion of the transaction and all other revenue recognition criteria are met.

The sale of end-user equipment is generally adjacent to the sale of services. Usually, the sale of equipment to the customer is executed with no contractual obligation of the client to consume services in a minimal amount for a predefined period. As a result, the Group refers to the sale transaction as a separate transaction and recognizes revenue from sale of equipment upon delivery of the equipment to the customer. Revenue from services is recognized and recorded when the services are provided.

In case the customer is obligated towards the Group to consume services in a minimal amount for a predefined period, the contract is characterized as a multiple element arrangement and thus, revenue from sale of equipment is recorded in an amount not higher than the fair value of the said equipment, which is not contingent upon delivery of additional components (such as services) and is recognized upon delivery to the customer and when the criteria for revenue recognition are met. The Group determines the fair value of the individual elements based on prices at which the deliverable is regularly sold on a standalone basis, after considering discounts where appropriate.

The Group also offers other services, such as extended equipment warranty plans, which are provided for a monthly fee and are either sold separately or bundled and included in packaged rate plans. Revenues from those services are recognized over the service period.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**K. Revenue (cont'd)****The accounting policy that was applied in periods prior to January 1, 2017 (cont'd)**

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues from long-term credit arrangements are recognized on the basis of the present value of future cash flows, discounted according to market interest rates at the time of the transaction. The difference between the original credit and its present value is recorded as interest income over the credit period.

Prepaid wireless airtime sold to customers is recorded as deferred revenue prior to the commencement of services and is recognized when the airtime is used or expires.

When the Group acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, revenues are presented on a net basis (as a profit or a commission). However, when the Group acts as a principal supplier and bears the risks and rewards resulting from the transaction, revenues are presented on a gross basis, distinguishing the revenue from the related expenses.

The accounting policy applied as from January 1, 2017 following the adoption of IFRS 15

The Group recognizes revenue when the control over the promised goods or services is transferred to the customer. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for the benefit of third parties.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
- (c) The Group can identify the payment terms for the goods or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**K. Revenue (cont'd)****The accounting policy applied as from January 1, 2017 following the adoption of IFRS 15 (cont'd)****Identifying performance obligations**

On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (a) Goods or services (or a bundle of goods or services) that are distinct; or
- (b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

Option to purchase additional goods or services

An option that grants the customer the right to purchase additional goods or services constitutes a separate performance obligation in the contract only if the option grants the customer a material right it would not have received without the original contract.

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of determining the transaction price and the existence of a significant financing component.

Variable consideration

The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, performance bonuses, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Group includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises the amount of the variable consideration included in the transaction price.

Allocating the transaction price to performance obligations

In a multiple performance obligations transaction, the transaction price is allocated between the components of the transaction according to the ratio of their stand-alone selling prices.

Existence of a significant financing component

In order to measure the transaction price, the Group adjusts the amount of the promised consideration in respect of the effects of the time on the value of money if the timing of the payments agreed between the parties provides to the customer or the Group a significant financing benefit. In these cases, the contract contains a significant financing component. When assessing whether a contract contains a significant financing component, the Group examines, inter alia, the expected length of time between the date the Group transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**K. Revenue (cont'd)****The accounting policy applied as from January 1, 2017 following the adoption of IFRS 15 (cont'd)**

When the contract contains a significant financing component, the Group recognizes the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the contract's inception date. The financing component is recognized as interest income or expenses over the period, which are calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less, the Group applies the practical exemption included in the standard and does not separate a significant financing component.

Satisfaction of performance obligations

Revenue is recognized when the Group satisfies a performance obligation by transferring to the customer control over promised goods or services.

Warranty

In order to assess whether a warranty provides a distinct service to the customer and is therefore a distinct performance obligation, the Group examines, inter alia, the following characteristics: does the customer have the option to purchase the warranty separately; is the warranty required by law; the period of the warranty and the nature of the actions the Group promises to execute.

Principal or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services themselves, which means the Group is a principal provider and therefore recognizes revenue in the gross amount of the consideration, or obligation to arrange that another party provides the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

The Group is a principal provider when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

L. Cost of revenues

Cost of revenues mainly include equipment purchase costs, salaries and related expenses, value added services costs, royalties expenses, ongoing license fees, interconnection and roaming expenses, cell site leasing costs, depreciation and amortization expenses and maintenance expenses, directly related to services rendered.

The Group recognizes discounts from suppliers as a decrease in Cost of Sales. Therefore, discounts in respect of purchases that are added to the closing inventory balance are treated as inventory and the remainder as a decrease in Cost of Sales.

M. Advertising expenses

Advertising costs are expensed as incurred.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**N. Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

O. Financing income and expenses

Financing income is comprised of interest income on installment sale transactions and funds invested, changes in the fair value of financial instruments measured at fair value through profit or loss and income from exchange rate differences. Interest income is recognized in the consolidated statements of income as it accrues using the effective interest method.

Financing expenses are comprised of interest expenses, linkage expenses, discount amortization expenses, changes in fair value of financial instruments measured at fair value through profit or loss, losses from exchange rate differences and unwinding of the discount on provisions. All borrowing costs are recognized in profit and loss using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss also include income from dividends and interest.

Gains and losses from exchange rate differences and changes in the fair value of financial instruments measured at fair value through profit or loss, are presented on a net basis, as financing income or financing expenses.

In the statements of cash flows, payments for derivative contracts which are used for economic hedges of financial liabilities arising from financing activities, are presented as part of cash flows from financing activities.

Payments for derivative contracts which are used for economic hedges of handset and network related acquisitions and international roaming services activity, and changes in the fair value of those derivatives, are presented as part of cash flows from operating activities.

Interest received and dividends received are presented as part of cash flows from investing activities.

Interest paid and dividends paid are presented as part of cash flows from financing activities.

P. Taxes on income

Taxes on income comprise current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**P. Taxes on income (cont'd)**

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their current tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Q. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

R. New standards not yet adopted**IFRS 9 (2014), *Financial Instruments* ("final version of IFRS 9")**

IFRS 9 (2014) is a final version of the standard, which includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance has been added to the chapter dealing with general hedge accounting requirements issued in 2013.

Classification and measurement of financial assets

In accordance with the final version of IFRS 9, there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The basis of classification for debt instruments is the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit and loss (unless the entity elected at initial recognition to present fair value changes in other comprehensive income).

As described in paragraph C(1) in this note, the Group has adopted in an early adoption from 2012 the classification and measurement rules of IFRS 9 (2009), with respect of financial assets, without adopting in an early adoption all of the other rules of the final version of IFRS 9, described below:

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**R. New standards not yet adopted (cont'd)****IFRS 9 (2014), *Financial Instruments ('final version of IFRS 9')* (cont'd)**

Classification and measurement of financial liabilities

There is no change in the classification and measurement principles of financial liabilities compared to those prescribed in IAS 39. Nevertheless, IFRS 9 (2014) requires that changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in its credit risk, should usually be recognized in other comprehensive income.

Hedge accounting - general

In accordance with the final version of IFRS 9, additional hedging strategies that are used for risk management will qualify for hedge accounting. The final version of IFRS 9 replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, with no quantitative threshold. In addition, the final version of IFRS 9 introduces new models that are alternatives to hedge accounting as regarding credit exposures and certain contracts outside the scope of the final version of IFRS 9 and sets new principles for accounting for hedging instruments. In addition, the final version of IFRS 9 provides new disclosure requirements.

Impairment of financial assets

The final version of IFRS 9 presents a new 'expected credit loss' model for calculating impairment. For most financial assets, the new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date. If the credit risk has increased significantly, in most cases the impairment provision will increase and be recorded at the level of the lifetime expected credit losses of the financial asset.

The final version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted. It will be applied retrospectively with some exemptions.

The Group is planning to adopt the standard from January 1, 2018 without amending the comparative data but while adjusting balances of retained earnings and other components of equity as at January 1, 2018 (the initial date of application).

Material changes and expected effects of adopting the standard:

1. The new standard includes a new 'expected credit loss' model for financial debt assets not measured at fair value through profit or loss. The new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date. If the credit risk has increased significantly, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**R. New standards not yet adopted (cont'd)****IFRS 9 (2014), Financial Instruments ("final version of IFRS 9") (cont'd)**

2. According to the new standard, in cases that a change in terms or exchange of financial liabilities is immaterial and does not lead to derecognition, the new cash flows should be discounted at the original effective interest rate, with the difference between the present value of the financial liability having the new terms and the present value of the original financial liability being recognized in profit or loss. As a result of applying the new standard, the carrying amount of debentures the terms of which were changed and for which a new effective interest rate was calculated at the time of the change in terms according to IAS 39, will be recalculated from the date of the change in terms using the original effective interest rate.

As a result, retained earnings balance is expected to decrease by NIS 35-40 million.

IFRS 16, Leases

The standard replaces International Accounting Standard 17 - Leases (IAS 17) and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Nonetheless, IFRS 16 includes two exceptions to the general model whereby a lessee may elect not to apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

In addition, IFRS 16 permits the lessee to apply the definition of the term lease according to one of the following two alternatives consistently for all leases: retrospective application for all the lease agreements, which means reassessing the existence of a lease for each separate contract, or alternatively to apply a practical expedient that permits continuing with the assessment made regarding existence of a lease based on the guidance in IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease, with respect to leases entered into before the date of initial application. Furthermore, the standard determines new and expanded disclosure requirements from those required at present.

The standard will become effective for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15 - Revenue from contracts with customers.

The standard includes a number of alternatives for the implementation of transitional provisions, so that companies can choose one of the following alternatives at the implementation date: full retrospective implementation or implementation from the effective date (with the possibility of certain practical expedients) while adjusting the balance of retained earnings at that date.

The Group is examining the effects of adopting the standard on the financial statements but at this time is unable to reliably estimate the quantitative effect on its financial statements. The Group has a significant scope of operating leases agreements (for additional details see Note 29, regarding Operating Leases) and therefore, the effect on the Group's financial statements is expected to be material.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**R. New standards not yet adopted (cont'd)****IFRIC 22, Foreign Currency Transactions and Advance Consideration**

The interpretation provides that the transaction date for the purpose of determining the exchange rate for recording a foreign currency transaction that includes advance consideration is the date of initial recognition of the non-monetary asset/liability from the prepayment. If there are multiple payments or receipts in advance, a transaction date is established for each payment or receipt.

IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018 with the possibility of early adoption. IFRIC 22 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: retrospective application; prospective application from the first reporting period the entity initially applied IFRIC 22; or prospective application from the first reporting period presented in the comparative data in the financial statements for the period the entity initially applied IFRIC 22.

The Group has examined the effect of applying IFRIC 22 on the financial statements and intends to choose the transitional provision alternative of prospective application as from January 1, 2018.

In the past, the Group had decided that the "date of transaction" used to determine the exchange rate for recording a foreign currency transaction would be the date on which the Group initially recognizes a non-monetary asset/liability in respect of the advance consideration. As a result, the effect on the Group's financial statements is not expected to be material.

IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**R. New standards not yet adopted (cont'd)****IFRIC 23, *Uncertainty Over Income Tax Treatments* (cont'd)**

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with the possibility of early adoption. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation.

According to the Group's estimation, the effect of adopting IFRIC 23 on the financial statements will be immaterial.

Note 4 - Fair Value**A. Determination of Fair Value**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

1. Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the appropriate interest rate at the reporting date.

2. Current investments and derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

The fair value of investments in debt securities and investments in equity instruments are based on quoted market prices.

3. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

4. Share-based payment transactions

Fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior) and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

Notes to the Consolidated Financial Statements

Note 4 - Fair Value (cont'd)**B. Fair Value Hierarchy**

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 5 - Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board has established a sub-committee for financial exposures management, which is responsible for developing and monitoring the Group's financial exposures management policies. The sub-committee recommends to the Board of Directors changes in the Group's financial exposures management policy.

The Group's risk management policies are established to identify and analyze the financial risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities through training and procedures. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures, and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group. See also Note 21.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Trade and other receivables

The Group conducts credit evaluations on receivables over a certain amount, and requires financial guarantees against them. Management monitors outstanding receivable balances and the financial statements include appropriate allowances for estimated irrecoverable amounts. The Group is exposed to credit risk arising mainly from its operation in Israel.

Cash and cash equivalents

Most of the Group's cash and cash equivalents are maintained with major banking institutions in Israel.

Investments in debt instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments and only with counterparties that have a credit rating of at least "AA-" from S&P Maalot. Management actively monitors credit ratings and given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Notes to the Consolidated Financial Statements

Note 5 - Financial Risk Management (cont'd)*Derivatives*

The counterparties of the derivatives held by the Group are major banks in Israel.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the consolidated statement of financial position. Financial instruments that could potentially subject the Group to credit risks consist primarily of trade receivables. Credit risk with respect to these receivables is limited due to the composition of the subscriber base, which includes a large number of individuals and businesses.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The cash surpluses held by Group companies that are not required for financing their current activity, are invested in interest-bearing investment channels such as: short-term deposits and debentures. These investment channels are chosen based on future forecasts of the cash Group will require in order to meet its liabilities.

The Group examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs, and it is careful at all times to have enough unused credit facilities so that the Group does not exceed its credit limits and is in compliance with its financial covenants. These forecasts take into consideration matters such as the Group's plan to use debt for financing its activity, compliance with required financial covenants, and compliance with external requirements such as laws or regulation.

The Group has contractual commitments to purchase inventories, fixed assets and other current services. For further information about material commitments see Note 30, regarding Commitments.

Market risk

In the ordinary course of business, the Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out according to the policy established by the Board of Directors.

Interest rate and CPI risk

The Group is exposed to fluctuations in the interest rate, including changes in the CPI, as part of its borrowings are linked to the CPI. As part of its risk management policy the Group has entered into forward contracts that partially hedge the exposure to changes in the CPI. All such transactions are carried out within the policy established by the Board of Directors.

Currency risk

The Group's operating income and cash flows are exposed to currency risk, mainly due to handset and network related acquisitions, purchase of TV content, purchase of telecommunications capacity and its international roaming services activity. The Group also manages bank accounts that are denominated in a currency other than its respective functional currency, primarily USD and Euro. As part of its financial exposures hedging policy, the Group uses forward and option contracts to partially hedge the exposure to fluctuations in foreign exchange rates.

Other market price risk

Equity price risk arises from equity securities that are measured through profit and loss. Management monitors the mix of debt and equity securities in its investment portfolio based on market indices.

Notes to the Consolidated Financial Statements

Note 5 - Financial Risk Management (cont'd)

Capital management

The Group's capital management aim is to ensure a sound and efficient capital structure which takes into consideration, among others, the following factors:

A gearing ratio that supports the Group's cash flow needs with respect to its potential cash flow generation and also supporting its dividend policy, considering the limitation imposed on dividend distribution as established in the indenture of the Group's Series F through L debentures and in the Company's long term loans and deferred loan agreements, while maintaining a Net Debt to EBITDA ratio (see definition in Note 17, regarding Debentures) as established in such documents, and that meets the industry standards. The Group considers Net Debt to EBITDA ratio to be an important measure for investors, debentures holders, analysts, and rating agencies. This ratio is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The Group's debt mainly consists of short and long-term debentures traded publicly in the Tel Aviv Stock Exchange and loans from financial institutions.

Note 6 - Operating Segments

The Group operates in two reportable segments, as described below, which are the Group's strategic business units. The strategic business unit's allocation of resources and evaluation of performance are managed separately. The operating segments were determined based on internal management reports reviewed by the Group's chief operating decision maker (CODM). The CODM does not examine the balance of assets or liabilities for those segments and therefore, they are not presented.

- Cellular segment - the segment includes the cellular communications services, cellular equipment and supplemental services.
- Fixed-line segment - the segment includes landline telephony services, internet services, television services, transmission services, landline equipment and supplemental services.

The accounting policies of the reportable segments are the same as described in the annual financial statements in Note 3, regarding Significant Accounting Policies.

	Year ended December 31, 2017*				Reconciliation of subtotal Segment EBITDA to profit for the year
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	
External revenues	2,685	1,186	-	3,871	
Inter-segment revenues	14	162	(176)	-	
Segment EBITDA**	595	258			853
Depreciation and amortization					(555)
Taxes on income					(40)
Financing income					52
Financing expenses					(196)
Other income					1
Share based payments					(2)
Profit for the year					113

Notes to the Consolidated Financial Statements

Note 6 - Operating Segments (cont'd)

	Year ended December 31, 2016				Reconciliation of subtotal Segment EBITDA to profit for the year
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	
External revenues	2,981	1,046	-	4,027	
Inter-segment revenues	17	183	(200)	-	
Segment EBITDA**	625	233			858
Depreciation and amortization					(534)
Taxes on income					(10)
Financing income					46
Financing expenses					(196)
Other expenses					(8)
Share based payments					(6)
Profit for the year					150

	Year ended December 31, 2015				Reconciliation of subtotal Segment EBITDA to profit for the year
	NIS millions				
	Cellular	Fixed-line	Reconciliation for consolidation	Consolidated	
External revenues	3,185	995	-	4,180	
Inter-segment revenues	18	186	(204)	-	
Segment EBITDA**	601	271			872
Depreciation and amortization					(562)
Taxes on income					(36)
Financing income					55
Financing expenses					(232)
Other income					3
Share based payments					(3)
Profit for the year					97

* See Note 2F regarding the early adoption of IFRS 15, *Revenue from Contracts with Customers*.

** Segment EBITDA as reviewed by the Group's CODM, represents earnings before interest (financing expenses, net), taxes, other income (expenses) (except for expenses in respect of voluntary retirement plans for employees, and gain (loss) due to sale of subsidiaries (see Note 26, regarding Other Income (Expenses), net)), depreciation and amortization and share based payments, as a measure of operating profit. Segment EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies.

Notes to the Consolidated Financial Statements

Note 7 - Subsidiaries

A. Presented hereunder is a list of the Group's significant subsidiaries:

Name of subsidiary	Principal location of the subsidiary's activity	The Group's ownership interest in the subsidiary for the year ended December 31	
		2016	2017
Netvision Ltd.	Israel	100%	100%
013 Netvision Ltd.	Israel	100%	100%

B. Sale of indirect subsidiary of the Company

In May 2017, a wholly owned indirect subsidiary of the Company, 013 Netvision Ltd., or Netvision, has entered an agreement for the sale of its holdings in Internet Rimon Israel 2009 Ltd., or Rimon, a subsidiary of Netvision, to the other shareholders of Rimon. In June 2017, the sale of Netvision's holdings in Rimon was completed, following which the Company recorded under Other Income, net, a capital gain of approximately NIS 10 million. The consideration shall be paid to Netvision in several installments over a period of two years from the closing of the transaction.

	NIS millions
Total consideration transferred	25
Identifiable assets and liabilities transferred:	
Cash and cash equivalents	(12)
Trade and other receivables	(4)
Property, plant and equipment, net	(2)
Intangible assets and others, net	(23)
Trade payables and accrued expenses	7
Other payables, including derivatives	4
Non-controlling interests	15
Total net identifiable assets	15
Capital gain from sale	10

The aggregate cash flows derived for the Group as a result of the sale:

Cash and cash equivalents received	15
Less cash and cash equivalents of the subsidiary	(12)
	3

C. For additional details regarding a reorganization of the Group's subsidiaries following which all the Group's fixed-line operation under the unified license were unified under the Company's wholly owned subsidiary Cellcom Fixed Line Communications, see Note 32E, regarding Regulation and Legislation.

Notes to the Consolidated Financial Statements

Note 8 - Cash and Cash Equivalents

Composition

	December 31,	
	2016	2017
	NIS millions	NIS millions
Bank balances	178	59
Call deposits	1,062	468
	1,240	527

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 21.

Note 9 - Trade and Other Receivables

Composition

	December 31,	
	2016	2017
	NIS millions	NIS millions
Current		
Trade Receivables*		
Open accounts	512	475
Checks and credit cards receivables	160	173
Accrued income	87	109
Current maturity of long-term receivables	566	523
	1,325	1,280
Other Receivables		
Prepaid expenses	54	76
Others	7	13
	61	89
	1,386	1,369
Non-current		
Trade receivables*	461	412
Rights of use of communications lines	327	337
Deposits and other receivables	1	30
Loan to a customer	-	107
Other	7	9
	796	895
	2,182	2,264

* Net of allowance for doubtful debts.

The Group is exposed to credit risks and impairment losses related to trade and other receivables as disclosed in Note 21.

Non-current trade receivables balances are in respect of equipment sold in installments (mainly 36 monthly payments) which current amount as of December 31, 2017, is calculated at a 3.3% annual discount rate (December 31, 2016 - 3.3%).

Notes to the Consolidated Financial Statements

Note 10 - Inventory

A. Composition

	December 31,	
	2016	2017
	NIS millions	NIS millions
Handsets	42	53
Accessories	10	9
Spare parts	12	8
	<u>64</u>	<u>70</u>

- B. In 2017, the Group tested slow moving inventory for impairment and wrote down inventory to its net realizable value by the amount of NIS 3 million (2016 - NIS 2 million). The write-down is included in Cost of Sales.

Note 11 - Property, Plant and Equipment, net

	Communications network	Control and testing equipment	Vehicles	Computers, furniture and landline communications equipment	Leasehold improvements	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Cost						
Balance at January 1, 2016	5,671	124	7	347	156	6,305
Additions	189	1	-	105	6	301
Disposals	(796)	(46)	(2)	(82)	(38)	(964)
Balance at December 31, 2016	<u>5,064</u>	<u>79</u>	<u>5</u>	<u>370</u>	<u>124</u>	<u>5,642</u>
Additions	189	-	2	151	6	348
Disposals	(262)	(20)	-	(25)	(17)	(324)
Discontinuance of consolidation (see Note 7B)	(2)	(1)	(1)	-	-	(4)
Balance at December 31, 2017	<u>4,989</u>	<u>58</u>	<u>6</u>	<u>496</u>	<u>113</u>	<u>5,662</u>
Accumulated Depreciation						
Balance at January 1, 2016	4,185	96	7	168	104	4,560
Depreciation for the year	284	12	-	67	12	375
Disposals	(796)	(46)	(2)	(75)	(33)	(952)
Balance at December 31, 2016	<u>3,673</u>	<u>62</u>	<u>5</u>	<u>160</u>	<u>83</u>	<u>3,983</u>
Depreciation for the year	273	7	1	105	11	397
Disposals	(252)	(20)	(1)	(24)	(17)	(314)
Discontinuance of consolidation (see Note 7B)	(2)	-	-	-	-	(2)
Balance at December 31, 2017	<u>3,692</u>	<u>49</u>	<u>5</u>	<u>241</u>	<u>77</u>	<u>4,064</u>
Carrying amounts						
At January 1, 2016	<u>1,486</u>	<u>28</u>	<u>-</u>	<u>179</u>	<u>52</u>	<u>1,745</u>
At December 31, 2016	<u>1,391</u>	<u>17</u>	<u>-</u>	<u>210</u>	<u>41</u>	<u>1,659</u>
At December 31, 2017	<u>1,297</u>	<u>9</u>	<u>1</u>	<u>255</u>	<u>36</u>	<u>1,598</u>

In the ordinary course of business, the Group acquires property, plant and equipment on credit. The cost of acquisitions, which has not yet been paid at the reporting date, amounted to NIS 143 million (December 31, 2016 and 2015, NIS 120 million and NIS 169 million, respectively).

Notes to the Consolidated Financial Statements

Note 12 - Intangible Assets and Others, net

	<u>Licenses and Frequencies</u>	<u>Information systems</u>	<u>Software</u>	<u>Customer acquisition costs</u>	<u>Goodwill</u>	<u>Customer relationships and other</u>	<u>Total</u>
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Cost							
Balance at January 1, 2016	552	296	62	-	830	324	2,064
Additions	-	73	8	-	-	-	81
Disposals	-	(65)	(17)	-	-	(16)	(98)
Balance at December 31, 2016	552	304	53	-	830	308	2,047
Additions	-	72	4	120	-	6	202
Disposals	-	(48)	(12)	-	-	-	(60)
Discontinuance of consolidation (see Note 7B)	-	(3)	-	-	(21)	-	(24)
Balance at December 31, 2017	552	325	45	120	809	314	2,165
Accumulated Amortization							
Balance at January 1, 2016	351	116	34	-	-	309	810
Amortization for the year	31	71	13	-	-	13	128
Disposals	-	(65)	(17)	-	-	(16)	(98)
Balance at December 31, 2016	382	122	30	-	-	306	840
Amortization for the year	19	68	9	27	-	3	126
Disposals	-	(48)	(12)	-	-	-	(60)
Discontinuance of consolidation (see Note 7B)	-	(1)	-	-	-	-	(1)
Balance at December 31, 2017	401	141	27	27	-	309	905
Carrying amounts							
At January 1, 2016	201	180	28	-	830	15	1,254
At December 31, 2016	170	182	23	-	830	2	1,207
At December 31, 2017	151	184	18	93	809	5	1,260

In the ordinary course of business, the Group acquires Intangible assets on credit. The cost of acquisitions, which has not yet been paid at the reporting date, amounted to NIS 28 million (December 31, 2016 and 2015, NIS 32 million and NIS 33 million, respectively).

A. Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated mainly to the Fixed-line segment, which represents the lowest level within the Group, at which goodwill is monitored for internal management purposes, which is not higher than the reported operating segments. See Note 6, regarding Operating Segments.

The aggregate carrying amount of goodwill allocated to the Fixed-line segment as of December 31, 2017, is NIS 732 million (December 31, 2016 - NIS 753 million). For additional details, see Note 7B, regarding Sale of Indirect Subsidiary.

The recoverable amount of the Fixed-line segment was based on its value in use and was determined by discounting the expected future cash flows to be generated from the continuing use. The recoverable amount of the Fixed-line segment as of December 31, 2017, was determined to be higher than its carrying amount and thus, no impairment loss has been recognized.

Notes to the Consolidated Financial Statements

Note 12 - Intangible Assets and Others, net (cont'd)

B. Key assumptions used in calculation of recoverable amount

Key assumptions used in the calculation of recoverable amounts are discount rate and terminal value growth rate. These assumptions are as follows:

(1) Pre-tax discount rate and terminal value growth rate

	Pre-tax discount rate		Terminal value growth rate	
	2016	2017	2016	2017
Fixed-line segment	10.4%	10.3%	1.5%	1.5%

The discount rate and the terminal value growth rate are denominated in real terms.

The Fixed-line segment has cash flows for 5 years, as included in its discounted cashflow model.

The long-term growth rate has been determined as 1.5% which represents, among others, the natural population growth rate.

The pre-tax discount rate is estimated and calculated using several assumptions, among others, Fixed-line segment's Cost of Equity, risk premium for normative debt leveraging of the Group and estimates of the normative leverage ratio for the industry.

(2) Sensitivity to changes in assumptions

The estimated recoverable amount of the Fixed-line segment exceeds its carrying amount by approximately NIS 105 million (2016: approximately NIS 74 million). Management has identified two key assumptions for which there reasonably could be a possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these two assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount:

	2016	2017
Pre-tax discount rate	10.8%	10.8%
Terminal value growth rate	1.0%	0.9%

Notes to the Consolidated Financial Statements

Note 13 - Trade Payables and Accrued Expenses

Composition

	December 31,	
	2016	2017
	NIS millions	NIS millions
Trade payables	203	256
Accrued expenses	472	396
	<u>675</u>	<u>652</u>

Note 14 - Provisions

Composition

	Dismantling and restoring	Litigations	Other contractual obligations	Total
	sites		NIS millions	NIS millions
	NIS millions	NIS millions	NIS millions	NIS millions
Balance as at January 1, 2016	20	54	56	130
Provisions made during the year	14	27	1	42
Provisions reversed during the year	(4)	(21)	(9)	(34)
Balance as at January 1, 2017	30	60	48	138
Provisions made during the year	2	14	11	27
Provisions reversed during the year	(11)	(25)	(17)	(53)
Balance as at December 31, 2017	<u>21</u>	<u>49</u>	<u>42</u>	<u>112</u>
Non-current	21	-	-	21
Current	-	49	42	91
	<u>21</u>	<u>49</u>	<u>42</u>	<u>112</u>

Dismantling and restoring sites

The Group is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. These dismantling costs are calculated on the basis of the identified costs for the current financial year, extrapolated for future years using the best estimate of future trends in prices, inflation, etc., and are discounted at a risk-free rate. Forecast of estimated site departures or asset returns is revised in light of future changes in regulations or technological requirements.

Litigations

The Group is involved in a number of legal and other disputes with third parties. The Group's management, after taking legal advice, has established provisions which take into account the facts of each case. The timing of cash outflows associated with legal claims cannot be reasonably determined. For detailed information regarding legal proceedings against the Group, refer to Note 31.

Other contractual obligations

Provisions for other contractual obligations and exposures include various obligations that are derived either from a constructive obligation or legislation for which there is a high uncertainty regarding the timing and amount of future expenditure required for settlement.

Notes to the Consolidated Financial Statements

Note 15 - Other Payables, Including Derivatives

Composition

	December 31,	
	2016	2017
	NIS millions	NIS millions
Employees and related liabilities	126	133
Government institutions	43	29
Interest payable	86	54
Accrued expenses	3	1
Deferred revenue	19	42
Derivative financial instruments	2	18
	<u>279</u>	<u>277</u>

Note 16 - Other Long-term Liabilities

Composition

	December 31,	
	2016	2017
	NIS millions	NIS millions
Long-term trade payables	3	1
Deferred revenue	2	3
Derivative financial instruments	15	-
Other	11	11
	<u>31</u>	<u>15</u>

Note 17 - Debentures and Long-term Loans from Financial Institutions

This note provides information about the contractual terms of the Group's debentures and long-term loans from financial institutions, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

	December 31,	
	2016	2017
	NIS millions	NIS millions
Non- current liabilities		
Debentures	2,866	2,360
Long-term loans from financial institutions	340	462
	<u>3,206</u>	<u>2,822</u>
Current liabilities		
Current maturities of debentures	863	540
Current maturities of loans from financial institutions	-	78
	<u>863</u>	<u>618</u>

Notes to the Consolidated Financial Statements

Note 17 - Debentures and Long-term Loans from Financial Institutions (cont'd)

Debentures

The terms and debt repayment schedule

The terms and repayment schedule of the Company's debentures are as follows*:

	Currency	Nominal interest rate	Year of maturity	December 31, 2016		December 31, 2017	
				NIS millions		NIS millions	
				Face value	Carrying amount	Face value	Carrying amount
Debentures (Series B) - linked to the Israeli CPI	NIS	5.30%	until 2017	185	220	-	-
Debentures (Series D) - linked to the Israeli CPI	NIS	5.19%	until 2017	299	349	-	-
Debentures (Series E) - unlinked	NIS	6.25%	until 2017	164	164	-	-
Debentures (Series F)** - linked to the Israeli CPI	NIS	4.60%	2017-2020	715	731	643	659
Debentures (Series G)** - unlinked	NIS	6.99%	2017-2019	285	285	228	228
Debentures (Series H) - linked to the Israeli CPI	NIS	1.98%	2018-2024	950	824	950	849
Debentures (Series I) - unlinked	NIS	4.14%	2018-2025	804	753	804	761
Debentures (Series J) - linked to the Israeli CPI	NIS	2.45%	2021-2026	103	102	103	102
Debentures (Series K) - unlinked	NIS	3.55%	2021-2026	304	301	304	301
Total Debentures				3,809	3,729	3,032	2,900

* In January 2018, after the end of the reporting period, the Company repaid interest and principal of debentures in a total sum of approximately NIS 418 million.

** In June 2013, the Company's rating was updated from an "iIAA-/negative" to an "iIA+/stable" rating, in relation to the Company's debentures traded on the Tel Aviv Stock Exchange. Following this update of rating and since this was the second downgrade in the Debentures' rating since their issuance, the annual interest rate that the Company pays for its Series F and G debentures has been increased by 0.25% to 4.60% and 6.99%, respectively, beginning July 5, 2013.

The Company's outstanding debentures were issued based on the then current Israeli shelf prospectus and are listed on the Tel Aviv Stock Exchange, or TASE.

The Company's debentures are unsecured and contain standard terms and conditions in addition to certain additional undertakings by the Company, as follows:

In connection with the issuance of Series F and G debentures, the Company has undertaken to comply with certain financial and other covenants. Inter alia:

a Net Leverage* exceeding 5, or exceeding 4.5 during four consecutive quarters, shall constitute an event of default; As of December 31, 2017, the Net Leverage is 3.00.

not to distribute more than 95% of the profits available for distribution according to the Israeli Companies law ("Profits"); provided that if the Net Leverage* exceeds 3.5:1, the Company will not distribute more than 85% of its Profits and if the Net Leverage* exceeds 4:1, the Company will not distribute more than 70% of its Profits. Failure to comply with this covenant shall constitute an event of default;

cross default, excluding following an immediate repayment initiated in relation to a liability of NIS 150 million or less, shall constitute an event of default;

a negative pledge, subject to certain exceptions. Failure to comply with this covenant shall constitute an event of default;

an obligation to pay additional interest of 0.25% for two-notch downgrade in the debentures' rating and additional interest of 0.25% for each additional one-notch downgrade and up to a maximum addition of 1%, in comparison to the rating given to the debentures prior to their issuance;

failure to have the debentures rated over a period of 60 days, shall constitute an event of default.

Notes to the Consolidated Financial Statements

Note 17 - Debentures and Long-term Loans from Financial Institutions (cont'd)**Debentures (cont'd)**

* Net Leverage - the ratio of Net Debt to EBITDA, excluding one-time influences. Net Debt defined as credit and loans from banks and others and debentures, net of cash and cash equivalents and current investments in tradable securities. EBITDA defined as in relation to the twelve month period preceding the Group's most updated consolidated financial statements and calculated as profit before depreciation and amortization, other expenses/ income, net, financing expenses/ income, net and taxes on income.

In connection with the issuance of Series H and Series I debentures in July 2014, the Company undertook additional undertakings, in addition to those previously undertaken by the Company in its Series F and G indenture (as detailed above), including: (1) in addition to being an event of default, meeting the financial covenants previously undertaken by the Company (a maximum net leverage ratio (Net Debt to EBITDA ratio) in excess of 5.0:1, or in excess of 4.5:1 for four consecutive quarters) would be a condition for dividend distribution; and (2) meeting such financial covenants would also be a condition for the issuance of additional debentures of each of the two series. In addition, the Series H and Series I Indenture contains substantially similar events of default to those found in the Series F and Series G Indenture, with the exception of certain new events of default that do not appear in the Series F and Series G Indenture as well as certain modifications to the events of default that are found in the Series F and Series G Indenture, including: (1) breach of the above limitation on dividend distributions; (2) the minimum amount required for triggering a cross default shall not apply to a cross default triggered by another series of debentures; (3) the existence of a real concern that the Company shall not meet its material undertakings towards the debenture holders; (4) the inclusion in the Company's financial statements during a period of two consecutive quarters of a note regarding the existence of significant doubt as to the Company's ability to continue as a going concern; and (5) breach of the Company's undertakings regarding the issuance of additional debentures.

The Series J and Series K debentures contain standard terms and conditions in addition to certain additional undertakings by the Company, generally similar to the terms of the Company's existing Series H and I debentures.

In June 2017, the Company entered into an agreement with certain Israeli institutional investors, according to which the Company irrevocably undertook to issue to the institutional investors, and the institutional investors irrevocably undertook to purchase from the Company, NIS 220 million aggregate principal amount of additional debentures of the existing series K debentures (which are listed on the Tel Aviv Stock Exchange, or TASE), on July 1, 2018, or the Agreed Date.

The price was set at NIS 1.011 for each Series K debenture (which bears a stated interest rate of 3.55% per annum) of NIS 1 principal amount, or a total consideration of approximately NIS 222 million, reflecting an effective interest yield of 3.6% per annum. The Company is required to pay a certain commitment fee to the institutional investors. In case the debentures' rating on the Agreed Date shall be il(A-) or below, the price shall be reduced to NIS 1.001 for each Series K debenture of NIS 1 principal amount.

The closing of the issuance will be subject to certain customary conditions, including: the absence of any event of default under the series K debentures indenture, the Company having an Israeli shelf prospectus in force, and satisfaction of the conditions set out in the series K debentures indenture for the issuance of additional K debentures (meaning, aside from the no events of default condition detailed above, that the issuance of additional debentures itself will not cause a rating downgrade compared to the rating prior to such issuance, and that the Company meets the financial covenants applicable to the series K debentures on the date of such issuance and thereafter).

Notes to the Consolidated Financial Statements

Note 17 - Debentures and Long-term Loans from Financial Institutions (cont'd)

Debentures (cont'd)

In January 2018, after the end of the reporting period, the Company issued a new series of debentures, Series L debentures, in a principal amount of approximately NIS 401 million, at an interest rate of 2.5% per annum (annual effective interest rate of 2.66%). Series L debentures principal will be payable in six installments, of which the first four installments of 15% of the principal each will be paid on January 5 of the years 2023 through 2026, and the remaining two installments of 20% of the principal each will be paid on January 5 of the years 2027 and 2028. The interest on the outstanding principal of the Series L debentures is payable on January 5 and on July 5 of each of the years 2019 through 2028. The series was issued at par value (NIS 1,000 per unit). The total net consideration received by the Company was approximately NIS 400 million. The debentures (principal amount and interest) are without any linkage.

The Series L debentures are unsecured and contain standard terms and conditions in addition to certain additional undertakings by the Company, generally similar to the terms of the Company's existing Series J and K debentures, with a change to the additional interest to be paid in case of a two-notch downgrade in the debentures' credit rating to 0.5% (with no change to the maximum additional interest).

As of December 31, 2017, the Group is in compliance with the above covenants.

Long-term loans from financial institutions

The terms and repayment schedule of the Company's long-term loans are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2016		December 31, 2017	
				NIS millions		NIS millions	
				Face value	Carrying amount	Face value	Carrying amount
Loan from financial institution	NIS	4.60%	2018-2021	200	200	200	200
Loan from financial institution*	NIS	5.10%	2019-2022	-	-	200	200
Loan from bank	NIS	4.90%	2018-2022	140	140	140	140
Total loans				340	340	540	540

* According to a loan agreement entered by the Company and two Israeli financial institutions in May 2015, in June 30, 2017, the second loan under the agreement in a principal amount of NIS 200 million was provided to the Company. The loan is without linkage and the principal amount bears an annual fixed interest of 5.1%. The loan's principal amount will be payable in four equal annual payments on June 30 of each of the years 2019 through 2022 (inclusive). The interest will be paid in ten semi-annual installments on June 30 and December 31, of each calendar year commencing December 31, 2017 through and including June 30, 2022.

The Company's outstanding long-term loans contain standard terms and conditions in addition to certain additional undertakings by the Company, including: that the loans' interest rates may be subject to certain adjustments; the Company may prepay the loans, subject to a prepayment fee; generally include the negative pledge, limitations on distributions, events of default and financial covenants applicable to the Company's series F through I debentures. In addition, the loan from a bank includes: certain modifications to such events of default, including foreclosure, materialization of a pledge, execution actions, receivership and (subject to certain exclusions) sale of assets, in a specified certain lower amount, a failure to operate in a field which is material to the Company's operations and mergers and changes of formation (with more limited exclusions) will trigger an event of default; certain events which if not approved by the bank allow the bank to notify the Company of an acceleration of the repayment of the loan; and in case the Company provides stricter financial covenants to another financial institution or debenture holder, those will apply to this agreement as well.

Notes to the Consolidated Financial Statements

Note 17 - Debentures and Long-term Loans from Financial Institutions (cont'd)

Long-term loans from financial institutions (cont'd)

Deferred loan from bank

In June 2017, the Company entered into a loan agreement with the Israeli bank that provided the Company a similar loan in August 2015 (the "2015 Loan Agreement"), according to which the bank has agreed, subject to certain customary conditions, to provide the Company a deferred loan in a principal amount of NIS 150 million, unlinked, which will be provided to the Company in March 2019, and will bear an annual fixed interest of 4%. The loan's principal amount will be payable in four equal annual payments on March 31 of each of the years 2021 through and including 2024 and the interest will be payable in ten semi-annual installments on March 31 and September 30 of each calendar year commencing September 30, 2019 through and including March 31, 2024. Until the provision of the loan, the Company is required to pay the bank a commitment fee.

The agreement includes similar terms and obligations to those included in the Company's August 2015 loan agreement and applies the right to demand immediate repayment of either or both agreements due to certain events of default under either agreement.

As of December 31, 2017, the Group is in compliance with the above covenants.

Movement in liabilities deriving from financing activities

	Loans	Debentures	Derivatives	Interest payable	Put options to non-controlling interests	Total
	NIS millions					
Balance as at January 1, 2017	(340)	(3,729)	(17)	(86)	(11)	(4,183)
Changes from financing cash flows						
Cash received	(200)	-	-	-	-	(200)
Cash paid	-	864	3	175	1	1,043
Total net financing cash flows	(540)	(2,865)	(14)	89	(10)	(3,340)
Linkage expenses to CPI	-	(3)	-	-	-	(3)
Changes in fair value	-	-	(3)	-	-	(3)
Discount amortization	-	(32)	-	-	-	(32)
Interest expenses	-	-	-	(143)	(1)	(144)
Balance as at December 31, 2017	(540)	(2,900)	(17)	(54)	(11)	(3,522)

Notes to the Consolidated Financial Statements

Note 18 - Liability for Employee Rights upon Retirement, Net

The obligation of the Group, under law and labor agreements, to pay severance pay to employees who are not covered by the pension or insurance plans as mentioned in section A below, as of December 31, 2017 and 2016 is NIS 15 million and NIS 12 million respectively, as included in the consolidated statements of financial position, under Liability for employee rights upon retirement, net.

A. Post-employment benefit plans - defined contribution plan

The Group's liability for severance pay for its Israeli employees is calculated pursuant to Israeli Severance Pay Law. The Group's liability is mostly covered by monthly deposits with severance pay funds, insurance policies and by an accrual on the consolidated statements of financial position. For most of the Group's employees, the payments to pension funds and to insurance companies exempt the Group from any obligation towards its employees, in accordance with Section 14 of the Severance Pay Law-1963. Accumulated amounts in pension funds and in insurance companies are not under the Group's control or management and accordingly, neither those amounts nor the corresponding accrual for severance pay are presented in the consolidated statements of financial position.

B. Post-employment benefit plans - defined benefit plan

The portion of the severance payments which is not covered by deposits in defined contribution plans, as aforementioned, is accounted for by the Group as a defined benefit plan, according to which a liability for employee benefits is recognized and in respect of which, the Group deposits amounts in central severance pay funds and in appropriate insurance policies. The total liability as at December 31, 2017 is NIS 27 million (2016 - NIS 25 million). The fair value of the plan assets, the severance pay fund, is NIS 20 million (2016 - NIS 20 million). The expense recognized in the consolidated statement of income for the year ended December 31, 2017 in respect of defined benefit plans, is NIS 3 million (2016 - NIS 3 million).

C. As of December 31, 2017 the Group's liability for adaptation grants to employees is NIS 8 million (2016 - NIS 7 million).

Note 19 - Capital and Reserves

Share capital

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	NIS		
Issued and paid at January 1	1,005,845	1,006,046	1,006,046
Exercise of share options	201	-	4,400
Issued and paid at December 31	<u>1,006,046</u>	<u>1,006,046</u>	<u>1,010,446</u>

The share capital is comprised of ordinary shares of NIS 0.01 par value each.

At December 31, 2017, the authorized share capital was comprised of 300 million ordinary shares (December 31, 2016, 2015 - 300 million each). The holders of ordinary shares are entitled to receive dividends as declared.

Basic and diluted earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding (100,589,458, 100,604,578 and 100,654,935 during the years 2015, 2016 and 2017, respectively). The calculations of diluted earnings per share was based on the profit attributable to ordinary shares and the weighted average number of ordinary shares in the basic earnings per share in addition of 72, 93,728 and 234,726 incremental shares (NIS 0.01 par value each) that would be issued resulting from exercise of all options for the years ended December 31, 2015, 2016 and 2017, respectively.

Notes to the Consolidated Financial Statements

Note 19 - Capital and Reserves (cont'd)

At December 31, 2017, 78 thousand options (2016 and 2015 - 1,060 thousand and 616 thousand options, respectively) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Dividends

In 2015-2017 the Company did not pay dividend to the shareholders of the Company.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred or exercised.

Note 20 - Share-Based Payments

In September 2006, the Company's Board of Directors approved a share based incentive plan for employees, directors, consultants, sub-contractors of the Company and the Company's affiliates. The terms of share-based payments include a dividend adjustment mechanism. The options will be exercised at net, with no cash transfer.

In March 2015, the Company's board of directors approved a new share based incentive plan - "2015 Share Incentive Plan" for employees, directors, consultants and sub-contractors of the Company and the Company's affiliates. Under the plan, the Company's board of directors is authorized to determine the terms of the grants, including the identity of grantees, the number of options or restricted stock units ("RSUs") to be granted, the vesting schedule and the exercise price. The terms of the share based payments include a dividend adjustment mechanism. The options will be exercised at net exercise mechanism, with no cash transfer.

Grant date/employees entitled	Number of instruments In thousands	Vesting conditions	Contractual life of options	Adjusted exercise price per share as of December 31, 2017
Share options granted in December 2013 to senior employees	234	Three equal installments over three years of employment	4.5 years	\$ 14.65
Share options granted in August 2015 and October 2015 to senior employees	2,660	Three equal installments over three years of employment	4.5 years	NIS 25.65
Share options granted in November 2016 to senior employees	63	Three equal installments over three years of employment	4.5 years	NIS 29.97

The total compensation expense during the year ended December 31, 2017, related to the options granted is NIS 2 million (2016 - NIS 6 million, 2015 - NIS 3 million).

Notes to the Consolidated Financial Statements

Note 20 - Share-Based Payments (cont'd)

The changes in the balances of the options were as follows:

	Number of options	Weighted average of exercise price (US Dollars)	Number of options	Weighted average of exercise price (US Dollars)	Number of options	Weighted average of exercise price (US Dollars)
	2015		2016		2017	
Balance as at January 1	638,865	15.86	2,873,190	7.40	2,764,334	7.15
Granted during the year	2,660,000	6.69	63,000	7.79	-	-
Forfeited during the year	(292,798)	19.52	(171,856)	11.43	(146,334)	11.26
Exercised during the year	(132,877)	5.67	-	-	(1,654,335)	7.40
Total options outstanding as at December 31	<u>2,873,190</u>	<u>7.40</u>	<u>2,764,334</u>	<u>7.15</u>	<u>963,665</u>	<u>8.07</u>
Total of exercisable options as at December 31*	<u>170,190</u>	<u>15.13</u>	<u>1,020,000</u>	<u>7.89</u>	<u>106,000</u>	<u>12.98</u>

* The weighted average of the remaining contractual life of options outstanding as at December 31, 2017 is 1.9 years.

	2015	2016	2017
Fair value of share options and assumptions:			
Fair value at grant date	NIS 3.5	NIS 6.3	-
Fair value assumptions:			
Share price at grant date	NIS 23.75	NIS 27.75	-
Exercise price	NIS 25.65	NIS 29.97	-
Expected volatility (weighted average)	35.9%	42.8%	-
Option life (expected weighted average life)	2.3 years	2.3 years	-
Risk free interest rate	0.4%	0.4%	-

Note 21 - Financial Instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31, 2016 NIS millions	December 31, 2017 NIS millions
Trade receivables including long-term amounts	1,786	1,692
Loans and other receivables including long-term amounts	5	146
Investment in debt securities	282	325
Cash and cash equivalents in banks	1,240	527
Derivative financial instrument	2	3
	<u>3,315</u>	<u>2,693</u>

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

The maximum exposure to credit risk of financial assets at the reporting date by type of counterparty is:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2017</u>
	<u>NIS millions</u>	<u>NIS millions</u>
Receivables from subscribers	1,590	1,511
Receivables from distributors and other operators	196	158
Investment in government of Israel debt securities	131	90
Investment in institutional debt securities	151	235
Cash and cash equivalents in banks	1,240	527
Other	7	172
	<u>3,315</u>	<u>2,693</u>

Impairment losses

The aging of financial assets at the reporting date was as follows:

	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
	<u>2016</u>		<u>2017</u>	
	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>	<u>NIS millions</u>
Not past due	3,200	22	2,580	12
Past due less than one year	154	62	143	53
Past due more than one year	146	101	157	122
	<u>3,500</u>	<u>185</u>	<u>2,880</u>	<u>187</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<u>2016</u>	<u>2017</u>
	<u>NIS millions</u>	<u>NIS millions</u>
Balance at January 1	202	185
Impairment loss recognized	(50)	(44)
Doubtful debt expenses	33	46
Balance at December 31	<u>185</u>	<u>187</u>

The allowance accounts in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the amount considered irrecoverable is written off against the trade receivable directly.

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

Liquidity risk

The following are the maturities of contractual financial liabilities and other non-contractual liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2017	Carrying amount	Contractual Cash flows	1 st year	2 nd year	3 rd year	4-5 years	More than 5 years
	NIS millions						
Debentures*	(2,954)	(3,435)	(658)	(577)	(473)	(739)	(988)
Long-term loans from financial institutions	(540)	(605)	(102)	(147)	(141)	(215)	-
Trade and other payables	(784)	(784)	(784)	-	-	-	-
Forward exchange contracts on foreign currencies	(1)	(1)	(1)	-	-	-	-
Forward exchange contracts on CPI	(17)	(17)	(17)	-	-	-	-
Other long-term liabilities	(12)	(12)	-	(12)	-	-	-
	<u>(4,308)</u>	<u>(4,854)</u>	<u>(1,562)</u>	<u>(736)</u>	<u>(614)</u>	<u>(954)</u>	<u>(988)</u>

* Including accrued interest on debentures.

December 31, 2016	Carrying amount	Contractual Cash flows	1 st year	2 nd year	3 rd year	4-5 years	More than 5 years
	NIS millions						
Debentures*	(3,815)	(4,448)	(1,014)	(657)	(577)	(847)	(1,353)
Long-term loans from financial institutions	(340)	(392)	(16)	(92)	(89)	(166)	(29)
Trade and other payables	(803)	(803)	(803)	-	-	-	-
Forward exchange contracts on CPI	(17)	(17)	(2)	(15)	-	-	-
Other long-term liabilities	(13)	(13)	(2)	-	(11)	-	-
	<u>(4,988)</u>	<u>(5,673)</u>	<u>(1,837)</u>	<u>(764)</u>	<u>(677)</u>	<u>(1,013)</u>	<u>(1,382)</u>

* Including accrued interest on debentures.

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

Currency risk and CPI

The Group's exposure to foreign currency risk and CPI is as follows:

	December 31, 2016			December 31, 2017		
	In or linked to foreign currencies (mainly USD)	Linked to CPI	Unlinked	In or linked to foreign currencies (mainly USD)	Linked to CPI	Unlinked
	NIS millions			NIS millions		
Current assets						
Cash and cash equivalents	12	-	1,228	29	-	498
Current investments, including derivatives	2	141	141	13	135	181
Trade receivables	89	-	1,236	61	-	1,219
Other receivables	-	-	4	-	-	8
Non-current assets						
Long-term receivables	-	1	461	-	54	495
Current liabilities						
Current maturities of debentures	-	(642)	(221)	-	(322)	(297)
Trade payables and accrued expenses	(182)	-	(493)	(115)	-	(537)
Other current liabilities, including derivatives	-	(49)	(167)	(1)	(42)	(161)
Non-current liabilities						
Long-term loans from financial institutions	-	-	(340)	-	-	(462)
Debentures	-	(1,584)	(1,282)	-	(1,288)	(1,071)
Other non-current liabilities, including derivatives	(3)	(15)	(10)	(1)	-	(11)
	<u>(82)</u>	<u>(2,148)</u>	<u>557</u>	<u>(14)</u>	<u>(1,463)</u>	<u>(138)</u>

The Group's exposure to linkage and foreign currency risk in respect of derivatives is as follows:

	December 31, 2017			
	Currency/ linkage receivable	Currency/ linkage payable	Notional Value	Fair value
	NIS millions			
Instruments not used for hedging				
Forward exchange contracts on foreign currencies	USD	NIS	105	(1)
Forward exchange contracts on CPI	CPI	NIS	500	(17)
Foreign currency put options	NIS	USD	(105)	1
Embedded derivative in lease contracts	USD	NIS	16	2

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

Currency risk and CPI (cont'd)

	December 31, 2016			
	Currency/ linkage receivable	Currency/ linkage payable	Notional Value	Fair value
			NIS millions	
Instruments not used for hedging				
Forward exchange contracts on foreign currencies	USD	NIS	95	1
Forward exchange contracts on CPI	CPI	NIS	800	(17)
Foreign currency put options	NIS	USD	(95)	1

Sensitivity analysis

A change of the CPI as at December 31, 2017 and 2016 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	Change	Equity	Net income
		NIS millions	NIS millions
December 31, 2017			
Increase in the CPI of	2.0%	(9)	(9)
Increase in the CPI of	1.0%	(2)	(2)
Decrease in the CPI of	(1.0)%	-	-
Decrease in the CPI of	(2.0)%	-	-
December 31, 2016			
Increase in the CPI of	2.0%	(13)	(13)
Increase in the CPI of	1.0%	(4)	(4)
Decrease in the CPI of	(1.0)%	3	3
Decrease in the CPI of	(2.0)%	6	6

Sensitivity of change in foreign exchange rate is immaterial as at December 31, 2017 and 2016.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, not including derivatives, was:

	Carrying amount	
	2016	2017
	NIS millions	NIS millions
Fixed rate instruments		
Financial assets	845	679
Financial liabilities	(4,069)	(3,440)
	(3,224)	(2,761)
Variable rate instruments		
Financial assets	500	221

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

Fair value sensitivity analysis for fixed rate instruments

A change of interest rates at the end of the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Equity				Profit or loss			
	1.0% increase	1.0% decrease	0.5% increase	0.5% decrease	1.0% increase	1.0% decrease	0.5% increase	0.5% decrease
	NIS millions				NIS millions			
December 31, 2017								
Fair value sensitivity (net)	(9)	9	(5)	5	(9)	9	(5)	5
	Equity				Profit or loss			
	1.0% increase	1.0% decrease	0.5% increase	0.5% decrease	1.0% increase	1.0% decrease	0.5% increase	0.5% decrease
	NIS millions				NIS millions			

December 31, 2016

Fair value sensitivity (net)

(7)

7

(4)

4

(7)

7

(4)

4

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the end of the reporting period would have increased (decreased) equity and profit or loss by immaterial amounts.

Fair Values**(1) Financial instruments measured at fair value for disclosure purposes only**

The book value of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, current investments, including derivatives, trade and other payables, including derivatives and other long-term liabilities, are equal or approximate to their fair value.

The fair values of the remaining financial liabilities and their book values as presented in the consolidated statements of financial position are as follows:

	December 31, 2016		December 31, 2017	
	Book value	Fair value*	Book value	Fair value*
	NIS millions		NIS millions	
Debentures including current maturities and accrued interest	(3,815)	(4,112)	(2,954)	(3,288)
Long-term loans from financial institutions including current maturities and accrued interest	(340)	(350)	(540)	(574)

* The fair value as of December 31, 2017 includes principal and interest in a total sum of approximately NIS 418 million, paid in January 2018, after the end of the reporting period. The fair value as of December 31, 2016 includes principal and interest in a total sum of approximately NIS 592 million, paid in January 2017.

The fair value of marketable debentures is determined by reference to the quoted closing asking price at the reporting date (level 1), with the addition of principal and interest amounts, which were paid during the following month after the end of the reporting period.

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Financial assets at fair value through profit or loss				
Current investments in debt securities	361	-	-	361
Derivatives	-	3	-	3
Total assets	361	3	-	364
Financial liabilities at fair value through profit or loss				
Derivatives	-	(18)	-	(18)
Total liabilities	-	(18)	-	(18)

There have been no transfers during the year between Levels 1 and 2.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Financial assets at fair value through profit or loss				
Current investments in debt securities	282	-	-	282
Derivatives	-	2	-	2
Total assets	282	2	-	284
Financial liabilities at fair value through profit or loss				
Derivatives	-	(17)	-	(17)
Total liabilities	-	(17)	-	(17)

(3) Details regarding fair value measurement at Level 2

Financial instrument	Valuation method for determining fair value
Forward contracts	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Foreign currency options	Fair value is measured based on the Black-Scholes formula.

Notes to the Consolidated Financial Statements

Note 21 - Financial Instruments (cont'd)

(4) Offset of financial assets and financial liabilities

The following table sets out the carrying amounts of recognized financial instruments that were offset in the consolidated statements of financial position:

December 31, 2017				
	Note	Gross amounts of recognized financial assets (liabilities) NIS millions	Gross amounts of financial assets (liabilities) recognized and offset in the consolidated statements of financial position NIS millions	Net amounts of financial assets (liabilities) presented in the consolidated statements of financial position NIS millions
Financial assets				
Trade receivables	9	170	(123)	47
Financial liabilities				
Trade payables and accrued expenses	13	(149)	123	(26)
December 31, 2016				
	Note	Gross amounts of recognized financial assets (liabilities) NIS millions	Gross amounts of financial assets (liabilities) recognized and offset in the consolidated statements of financial position NIS millions	Net amounts of financial assets (liabilities) presented in the consolidated statements of financial position NIS millions
Financial assets				
Trade receivables	9	224	(159)	65
Financial liabilities				
Trade payables and accrued expenses	13	(183)	159	(24)

Share price risk - sensitivity analysis

The Group's investments in securities include investments in equity instruments. The sensitivity analysis below presents the effect of a change in share prices on the fair value of securities held by the Group, assuming that all other variables remain constant.

A change in share prices would have increased (decreased) profit or loss and equity by the amounts shown below (after tax):

	December 31, 2017	
	NIS millions	
	Profit or loss	Equity
Increase of 5%	1	1
Increase of 10%	3	3
Decrease of 5%	(1)	(1)
Decrease of 10%	(3)	(3)

Notes to the Consolidated Financial Statements

Note 22 - Revenues

By type of revenue:

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Revenues from equipment	1,048	994	952
Revenues from services:			
Cellular services	2,121	2,025	1,777
Land-line communications services	866	871	1,004
Other services	145	137	138
Total revenues from services	3,132	3,033	2,919
Total revenues	4,180	4,027	3,871

Note 23 - Cost of Revenues

Composition

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
According to source of income:			
Cost of revenues from equipment	763	674	645
Cost of revenues from services	2,000	2,028	2,035
	2,763	2,702	2,680
According to its components:			
Cost of revenues from equipment	763	674	645
Rent and related expenses	332	321	281
Salaries and related expenses	265	241	224
Fees to communications operators	732	732	767
Cost of content and value added services	143	168	212
Depreciation and amortization	381	396	412
Royalties and fees	96	93	86
Other	51	77	53
Total cost of revenues from services	2,000	2,028	2,035
	2,763	2,702	2,680

Notes to the Consolidated Financial Statements

Note 24 - Selling and Marketing Expenses

Composition

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Salaries and related expenses	278	257	241
Commissions	196	179	88
Advertising and public relations	26	44	36
Depreciation and amortization	38	20	33
Other	82	74	81
	<u>620</u>	<u>574</u>	<u>479</u>

Note 25 - General and Administrative Expenses

Composition

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Salaries and related expenses	114	123	124
Depreciation and amortization	143	118	110
Rent and maintenance	59	55	51
Data processing and professional services	51	39	36
Allowance for doubtful accounts	32	33	46
Other	66	52	59
	<u>465</u>	<u>420</u>	<u>426</u>

Note 26 - Other Income (Expenses), net

Other Income, net, for 2017 mainly includes a NIS 10 million capital gain from the sale of an indirect subsidiary of the Company. For additional details, see note 7B, regarding Sale of indirect subsidiary of the Company.

Other expenses, net, for 2016 and 2015 include mainly expenses in respect of voluntary retirement plans for employees in an amount of approximately NIS 13 million and NIS 25 million, respectively.

Note 27 - Financing Income and Expenses

Composition

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Interest income from installment sale transactions	47	38	31
Net change in fair value of financial assets measured at fair value through profit or loss	5	6	14
Other	3	2	7
Financing income	<u>55</u>	<u>46</u>	<u>52</u>
Linkage expenses to CPI and interest expenses on long-term liabilities	(169)	(157)	(147)
Net change in fair value of derivatives	(32)	-	(8)
Discount amortization	(22)	(26)	(32)
Other	(9)	(13)	(9)
Financing expenses	<u>(232)</u>	<u>(196)</u>	<u>(196)</u>
Net financing expenses recognized in profit or loss	<u>(177)</u>	<u>(150)</u>	<u>(144)</u>

Notes to the Consolidated Financial Statements

Note 28 - Income Tax

A. Details regarding the tax environment of the Group

Corporate tax rate

Presented hereunder are the tax rates relevant to the Group in the years 2015-2017:

2015 - 26.5%
 2016 - 25%
 2017 - 24%

On January 4, 2016 the Israeli Parliament passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate was reduced by 1.5% to a rate of 25% as from January 1, 2016.

Furthermore, on December 22, 2016 the Israeli Parliament passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) - 2016, by which, inter alia, the corporate tax rate was reduced from 25% to 23% in two steps. The first step to a rate of 24% as from January 2017 and the second step to a rate of 23% as from January 2018.

As a result of the aforesaid, the deferred tax balances as at December 31, 2017 were calculated according to the new tax rate of 23% - the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

B. Composition of income tax expense (income)

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Current tax expense (income)			
Current year	45	35	27
Adjustments for prior years, net	-	(27)	(1)
	45	8	26
Deferred tax expense (income)			
Creation and reversal of temporary differences	(9)	21	14
Change in tax rate	-	(19)	-
	(9)	2	14
Income tax expense	36	10	40

Notes to the Consolidated Financial Statements

Note 28 - Income Tax (cont'd)

C. Income tax in respect of other comprehensive income (loss)

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Before tax	(2)	1	1
Tax (benefit) expenses	1	(1)	-
Net of tax	(1)	-	1

D. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Profit before taxes on income	133	160	153
Primary tax rate of the Group	26.5%	25.0%	24.0%
Tax calculated according to the Group's primary tax rate	35	40	37
Additional tax (tax saving) in respect of:			
Non-deductible expenses	5	4	5
Taxes in respect of previous years	-	(27)	(1)
Effect of change in tax rate	-	(19)	-
Tax exempt income	(1)	-	-
Other differences	(3)	12	(1)
Income tax expenses	36	10	40

Notes to the Consolidated Financial Statements

Note 28 - Income Tax (cont'd)

E. Deferred tax assets and liabilities

(1) Recognized deferred tax assets and liabilities

Deferred taxes are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above.

The movement in deferred tax assets and liabilities is attributable to the following items:

	Allowance for doubtful debts	Property, plant and equipment and intangible assets	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions
Balance of deferred tax asset (liability) as at January 1, 2017	43	(184)	24	(117)
Changes recognized in profit or loss	-	(13)	(1)	(14)
Balance of deferred tax asset (liability) as at December 31, 2017	43	(197)	23	(131)
Deferred tax asset	43	5	26	74
Offset of balances				(74)
Deferred tax asset in the consolidated statements of financial position as at December 31, 2017				-
Deferred tax liability	-	(202)	(3)	(205)
Offset of balances				74
Deferred tax liability in the consolidated statements of financial position as at December 31, 2017				(131)

Notes to the Consolidated Financial Statements

Note 28 - Income Tax (cont'd)

E. Deferred tax assets and liabilities (cont'd)

(1) Recognized deferred tax assets and liabilities (cont'd)

	Allowance for doubtful debts	Property, plant and equipment and intangible assets	Hedging transactions	Carry forward tax deductions and losses	Other	Total
	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions
Balance of deferred tax asset (liability) as at January 1, 2016	53	(201)	1	8	25	(114)
Changes recognized in profit or loss	(10)	17	(1)	(8)	-	(2)
Changes recognized in other comprehensive income	-	-	-	-	(1)	(1)
Balance of deferred tax asset (liability) as at December 31, 2016	<u>43</u>	<u>(184)</u>	<u>-</u>	<u>-</u>	<u>24</u>	<u>(117)</u>
Deferred tax asset	43	23	-	-	27	93
Offset of balances						(92)
Deferred tax asset in the consolidated statements of financial position as at December 31, 2016						<u>1</u>
Deferred tax liability	-	(207)	-	-	(3)	(210)
Offset of balances						92
Deferred tax liability in the consolidated statements of financial position as at December 31, 2016						<u>(118)</u>

(2) Unrecognized deferred tax liability

As at December 31, 2017 and 2016, a deferred tax liability for temporary differences related to an investment in a subsidiary was not recognized as the decision whether to sell the investment is within the Group and it is satisfied that it will not be sold in the foreseeable future.

F. Tax assessments

The Company has received final tax assessments up to and including the year ended December 31, 2013 (2013 fiscal year).

013 Netvision Ltd has received final tax assessments up to and including the year ended December 31, 2015 (2015 fiscal year).

Notes to the Consolidated Financial Statements

Note 29 - Operating Leases

Non-cancelable operating lease rentals are payable as follows:

	December 31, 2016	December 31, 2017
	NIS millions	NIS millions
Less than one year	274	275
Between one and five years	570	573
More than five years	103	70
	<u>947</u>	<u>918</u>

During the year ended December 31, 2017, NIS 280 million was recognized as expenses in respect of operating leases in the consolidated statements of income (2016 and 2015, NIS 286 million and NIS 285 million, respectively).

Major operating lease and service agreements:

- a. Office buildings and warehouses - there are lease agreements for periods of up to 14 years.
- b. Switching stations- there are lease agreements for switching station locations for periods of up to 18 years.
- c. Cell sites- there are lease agreements for cell sites for periods of up to 21 years.
- d. Service centers, retail stores and stands - there are lease agreements for service and installation centers and stands for periods of up to 13 years.
- e. Motor vehicles - lease for a period of 3 years.

Note 30 - Commitments

A. The Group has commitments regarding the license it was granted in 1994, including:

1. Not to pledge any of the assets used to execute the license without the advance consent of the Ministry of Communications.
2. The Company's shareholders' joint equity, combined with the Company's equity, shall not amount to less than US\$ 200 million. Regarding this stipulation, a shareholder holding less than 10% of the rights to the Company's equity is not taken into account.

The Group is in compliance with the above conditions.

B. As at December 31, 2017, the Group has commitments to purchase equipment for the communications networks, end user equipment, systems and software maintenance, and content and related services, in a total amount of approximately NIS 859 million.

C. Between 2003 and 2016, Netvision entered into a number of agreements with TI Sparkle Ireland Telecommunications Ltd. (formerly Mediterranean Nautilus Ltd.) and TI Sparkle (Israel) Ltd. (formerly Mediterranean Nautilus (Israel) Ltd.), or collectively TI Sparkle, for the purchase of rights of use of certain telecommunications capacities on TI Sparkle's communications cables, as well as maintenance and operation services relating to these cables. Over the last few years Netvision has increased the capacity purchased for significantly lower prices, as well as reduced maintenance costs. The term of the agreement with respect to capacity purchased from TI Sparkle is in effect until May 2032. Netvision has the option to terminate agreements with respect to parts of the capacity in 2022 and 2027. The remainder of the obligation under all existing agreements as of December 31, 2017 is NIS 92 million.

Notes to the Consolidated Financial Statements

Note 30 - Commitments (cont'd)

- D. In March and April 2017, the Company's Sharing Agreements - the 4G network sharing and 2G and 3G hosting services agreement with Marathon 018 Xfone Ltd., or Xfone, (which has not entered the cellular market yet) and the 3G and 4G network sharing and 2G hosting services agreement with Golan Telecom Ltd., or Golan, (originally entered with Electra and adopted by Golan, after being acquired by Electra), and an agreement combining the 4G network sharing arrangements of the Xfone agreement and the Golan agreement into one three-way agreement - came into effect.

The main provisions of the Sharing Agreements are:

Network sharing - the parties will cooperate in the development of the shared 3G and 4G networks (as applicable), which will use the parties' relevant frequencies, to be operated by separate, newly created entities, or the Joint Corporations, which are equally owned by the parties. Each of the Company and the sharing party/parties shall hold the active elements of the shared network in equal parts and will grant each other and the Joint Corporations an Indefeasible Right of Use, or IRU, in their active elements of the shared Network. To that end, the sharing parties will purchase and hold equal shares of the active elements of the shared networks owned by the Company prior to the Effective Date. Future ongoing investments in such active elements shall be equally borne by the parties. Each party will purchase and operate its own core network. The Company will further provide the sharing parties and the Joint Corporations an IRU to the Company's passive elements of the shared network. The Company shall provide services to the Joint Corporations as a subcontractor.

Hosting services - the Company shall provide Xfone hosting services in relation to the Company's 2G and 3G networks and to Golan hosting services in relation to the Company's 2G network.

Term - the Agreements are for a term of ten years (the Xfone Agreement - commencing from the earlier of the commercial launch of cellular services by Xfone or 12 months following the receipt of regulatory approvals for the agreement ("the Xfone Agreement Effective Date")), and will be extended for additional periods, unless either party notifies otherwise. The termination of the Golan Agreement prior to the lapse of the first 10 years due to its breach by Golan, shall entitle the Company to an agreed compensation of NIS 600 million plus VAT.

Consideration - the average annual consideration for the Company under the Golan agreement during the Term (starting with lower annual payment and increasing over the Term), is expected to range between approximately NIS 210-220 million plus VAT, depending on Golan's amount of subscribers and their usage of the shared network and our 2G network. Such consideration includes the following components:

- o Its share of the active elements of the existing 3G and 4G network owned by the Company and minimum future investment by Golan in active elements of the shared network;
- o IRU to the Passive elements;
- o Operation costs of the shared network and the 2G network (both active and passive), to include a fixed component to be borne equally by the parties, subject to certain discount arrangements dependent on Golan's subscribers amount, and a variable component to be borne by the parties according to the parties' relative usage of data by their subscribers.

Notes to the Consolidated Financial Statements

Note 30 - Commitments (cont'd)

The consideration for the Company under the Xfone agreement includes substantially similar arrangements (mutatis mutandis to its sharing and hosting agreement) but Xfone shall be entitled to a discount according to which, the said payments for the IRU to the passive elements and its share of the operation costs, will be replaced during a period of up to 5 years from the Xfone Agreement Effective Date, with a monthly payment per subscriber to the Company of NIS 25 in the first year, NIS 27.5 in the second year and NIS 30 thereafter, plus VAT, but in any case not less than certain minimum annual amounts (ranging between approximately NIS 20 million in the first year and approximately NIS 110 million in the fifth year).

The Agreements include standard stipulations as well as certain arrangements for separation of the parities and adding another sharing party. In addition to standard termination causes, Xfone may terminate its agreement by a prior written notice if it decides to cease operating in the cellular market in Israel.

The Golan agreement (which replaces the former national roaming services agreement) includes the following arrangements as well:

Loan - upon closing of the purchase of Golan by Electra, a loan by the Company to Golan in the sum of NIS 130 million for a period of 10 years to be repaid in 6 semi-annual equal installments beginning the 8th year of the Term (interest and CPI differentials to be accrued, will be paid as of the 6th year). The loan is guaranteed by a second degree floating charge on Golan's assets and rights (excluding certain exceptions) or an equivalent guaranty. In April 2017, the said loan in an amount of NIS 130 million was provided to Golan according to the terms of such agreement.

Resolve of the previously reported past national roaming payments differences.

According to the terms of the Golan agreement, part of the consideration is recognized as revenues and part is recognized as a reduction of operation costs.

As mentioned above, the Golan agreement includes a number of performance obligations for revenue recognition purposes:

IRU to Golan to the passive elements;
IRU to Golan in its part of the existing active elements of the shared 3G and 4G network and 2G hosting services;
Transmission services to Golan.

In addition, Golan shall pay the Company for participation in the operating costs of the 3G and 4G shared network and 2G network and future ongoing investments in the shared networks, according to a mechanism set in the agreement.

- E. In October 2016, the Company entered into an agreement with Apple Sales International for the purchase and distribution of iPhone handsets in Israel. Under the terms of the agreement, the Company has committed to purchase a minimum quantity of iPhone products over a period of three years, which are expected to represent a significant portion of the Company total cellular handsets purchase amounts, over that period.

Notes to the Consolidated Financial Statements

Note 30 - Commitments (cont'd)

- F. In May 2016, the Company entered into several agreements aiming to provide the Company with a comprehensive CRM SAAS solution, on a cloud 'software as a service', or SAAS, basis, which, when completed, will gradually replace all the Company current CRM systems with one CRM solution that will serve both the Company cellular and fixed-line segments. These agreements include the following main agreements:
- An agreement with salesforce.com EMEA Limited, or Salesforce, for the provision of Salesforce's CRM SAAS platform, including various products and services and support for the agreement term. The agreement is valid until August 2019, and may be terminated by the Company in April 2018. The Company also has an option to renew the agreement for two additional periods of 5 years each under certain terms.
- Two agreements with Vlocity UK Ltd., or Vlocity, as follows: (i) an agreement for the provision of Vlocity's telecom-CRM SAAS solution, based on Salesforce platform, including support for such services for the agreement term. This agreement is valid until November 2019, and may be terminated by the Company in April 2018; and (ii) an agreement for the development and customization for Salesforce's and Vlocity's CRM solution. This agreement will be valid until the project is completed, and may be terminated by the Company subject to prior written notice.

Note 31 - Contingent Liabilities

In the ordinary course of business, the Group is involved in various lawsuits against it. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, while events that occur in the course of the litigation may require a reassessment of this risk. The Group's assessment of risk is based both on the advice of its legal counsels and on the Group's estimate of the probable settlements amounts that are expected to be incurred, if such settlements will be agreed by both parties. The provision recorded in the consolidated financial statements in respect of all lawsuits against the Group amounted to NIS 49 million (see also Note 14, regarding Provisions).

Described hereunder are the outstanding lawsuits against the Group, classified into groups with similar characteristics. The amounts presented below are calculated based on the claims amounts as of the date of their submission to the Group.

A. Consumer claims

In the ordinary course of business, lawsuits have been filed against the Group by its customers. These are mostly purported class actions, particularly concerning allegations of illegal collection of funds, unlawful conduct or breach of license, or a breach of agreements with customers, causing monetary and non-monetary damage to them. As of December 31, 2017, the amounts claimed from the Group by its customers sum up to NIS 16.634 billion (including class actions as detailed below). In addition, there are other purported class actions against the Group, in which the amount claimed has not been quantified if the lawsuits are certified as class actions, and in respect of which the Group has exposure in addition to the above mentioned. In addition, there is another purported class action for approximately NIS 300 million, that has been filed against the Group and other defendants together without specifying the amount claimed from the Group, another purported class action against the Group and other defendants together, in which the amount claimed from the Group was estimated by the plaintiffs to be approximately NIS 3 million, and other purported class actions, that have been filed against the Group and other defendants together in which the amount claimed has not been quantified if the lawsuits are certified as class actions and in respect of which the Group has exposure in addition to the above mentioned.

Notes to the Consolidated Financial Statements

Note 31 - Contingent Liabilities (cont'd)

In December 2016, the District court partially approved a request to certify a lawsuit filed against the Company in July 2014 as a class action, relating to an allegation that the commercial messages the Company sent to its subscribers failed to meet the requirements of applicable law. In January 2017, the plaintiffs appealed the dismissal of the allegations which were not approved, to the Supreme Court. The total amount claimed was estimated by the plaintiffs to be approximately NIS 21 million.

In January 2017, the District court partially approved a request to certify a lawsuit filed against the Group in February 2013 as a class action, relating to an allegation that the Group failed to disconnect customers within the time frame set in its license and applicable law. In March 2017, the plaintiffs appealed the dismissal of the allegations which were not approved, to the Supreme Court. The total amount claimed was estimated by the plaintiffs to be approximately NIS 72 million.

In December 2017, the District Court approved a request to certify a lawsuit filed against the Company in May 2015 as a class action, relating to an allegation that the Company unlawfully charged some of its subscribers for call details reports. In February 2018, after the end of the reporting period, the Company appealed the approval of this allegation to the Supreme Court and the plaintiff appealed the dismissal of other allegations. The total amount claimed was not estimated by the plaintiffs.

Of all the consumer purported class actions, in two purported class actions with aggregate amounts claimed estimated by the plaintiffs of approximately NIS 15.076 billion, settlement agreements were filed with the court and the proceedings are still pending.

Of all the consumer purported class actions, there is a purported class action for approximately NIS 6 million, of which at this early stage it is not possible to assess the chances of success.

After the end of the reporting period, two purported class actions against the Group, with aggregate amounts claimed estimated by the plaintiffs of approximately NIS 160 million and another purported class action against the Group for which the amount claimed from the Group was not specified, were concluded.

After the end of the reporting period, five purported class actions have been filed against the Group: three purported class actions with aggregate amounts claimed estimated by the plaintiffs of approximately NIS 88 million, a purported class action for a sum estimated by the plaintiffs of tens of millions of NIS, and a purported class action against the Group and other defendants together, in which the amount claimed from the Group was estimated by the plaintiffs to be approximately NIS 4 million. At this early stage it is not possible to assess their chances of success.

Notes to the Consolidated Financial Statements

Note 31 - Contingent Liabilities (cont'd)

Described hereunder are the outstanding consumer class actions and purported class actions against the Group broken down by amount claimed if the lawsuit is certified as a class action, as of December 31, 2017:

Claim amount	Number of claims	Total claims amount (NIS millions)
Up to NIS 100 million	15	468
NIS 100-500 million	5	1,166
Above NIS 1 billion	1	15,000
Unquantified claims	12	-
Against the Group and other defendants together without specifying the amount claimed from the Group	1	300
Against the Group and other defendants together, in which the amount claimed from the Group has been quantified	1	3
Unquantified claims against the Group and other defendants	5	-

Described hereunder are purported class actions against the Group, in which the amount claimed was NIS 1 billion or more:

1. In March 2015, a purported class action in a total amount estimated by the plaintiffs to be approximately NIS 15 billion, if the lawsuit is certified as a class action, was filed against the Company, by plaintiffs alleging to be subscribers of the Company, in connection with allegations that the Company unlawfully violated the privacy of its subscribers. In February 2017, a settlement agreement was filed with the court and proceedings are still pending.
2. In December 2015, a purported class action was filed against the Company and two other defendants, alleging that the defendants unlawfully offer cellular pre-paid calling cards for very high prices by allegedly coordinating such prices among them. The total amount claimed from all defendants, including the Company, had the lawsuit been certified as a class action, was estimated by the plaintiffs to be approximately NIS 13 billion, out of which, based on the data specified in the lawsuit by the plaintiffs, an estimated amount of approximately NIS 6.7 billion was claimed from the Company. In September 2016, the purported class action was dismissed by the District Court. In November 2016, the plaintiffs filed an appeal regarding the District Court's decision and in January 2017, the Supreme Court dismissed their appeal.

B. Employees, subcontractors, suppliers, authorities and others claims

In the ordinary course of business, lawsuits have been filed against the Group by employees, subcontractors, suppliers, authorities and others which deal mostly with claims for breach of provisions of the law governing termination of employment and obligatory payments to employees, claims for breach of agreements, copyright and patent infringement and compulsory payments to authorities.

As of December 31, 2017, the amounts that are claimed from the Group under these claims total approximately NIS 27 million.

Notes to the Consolidated Financial Statements

Note 31 - Contingent Liabilities (cont'd)**C. Liens and guarantees**

As part of issuance of the Series F through L debentures and the loan agreements which the Company entered into, the Company committed not to create liens on its assets, subject to certain exceptions.

The Group has given bank guarantees as follows:

- a. To the Government of Israel (to guarantee performance of the Cellular License) - NIS 80 million.
- b. To the Government of Israel (to guarantee performance of the Licenses of the Group) - NIS 18 million.
- c. To suppliers, government institutions and others - NIS 159 million.

Note 32 - Regulation and Legislation

- A.** Under an interim order issued by the Supreme Court in September 2010, the Company is unable to rely on the exemption from obtaining a building permit for the construction of radio access devices under cellular networks, other than to replace or relocate existing radio access devices in certain conditions, until regulations limiting such reliance are enacted or a different decision by the court is made. In 2017, a draft regulations setting procedures for making changes in existing radio access devices including replacement thereof and for the construction of a limited number of new radio access devices exempt from building permits, but requiring certain municipal procedures, was deliberated in the Israeli Parliament's Economic Committee.
- B.** In 2012, the Israeli Minister of Communications published a policy document regarding landline wholesale services, which mainly provided for: (1) the creation of an effective wholesale telecommunications access market in Israel, as Bezeq and Hot will allow other operators that do not own an infrastructure, to use their infrastructure in order to provide services to end users; (2) the gradual annulment of the structural separation in the Bezeq and Hot groups and its replacement with an accounting separation and change of the supervision on Bezeq retail tariffs to maximum tariffs rather than the current setting of fixed tariffs, generally depending on the development of a wholesale market and the state of competition in the market, and with relation to television broadcasting services, if there is a reasonable possibility of providing a basic package of television services through the internet by providers without a national landline infrastructure.

In 2015, the wholesale landline market was formally launched in Israel in regards to internet infrastructure services and use of certain physical infrastructure by operators who do not own such infrastructure.

Although the wholesale market was formally applicable to Hot's infrastructure as well, Hot's infrastructure has been effectively excluded from the wholesale market up until recently, initially as the maximum tariffs for Hot's wholesale infrastructure service were not published by the MOC until June 2017 (and are higher than those set for Bezeq's service) and thereafter, due to disagreements with Hot as to the implementation of the service, which were recently resolved by the MOC. To the best of the Company's knowledge, there are no wholesale services supplied yet over Hot's infrastructure. The Ministry of Communications previously announced it will not interfere with the tariffs Hot has set for its wholesale telephony service.

Notes to the Consolidated Financial Statements

Note 32 - Regulation and Legislation (cont'd)

In June 2017, the Ministry of Communications published regulations setting Bezeq's resale telephony service to be provided by Bezeq as of July 2017, as a temporary 14 month alternative for wholesale landline telephony service. In addition, the Ministry of Communications resolved that Bezeq's obligation to offer wholesale telephony service, will be postponed until the lapse of said resale telephony service period. The resolution further notes that the Ministry of Communications will consider the resale telephony service as a permanent replacement of the telephony wholesale service.

The tariffs set for the resale telephony service are substantially higher than those set for Bezeq's telephony wholesale service. The Ministry of Communications is holding a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion.

Further, in January 2016, the Ministry of Communications announced its intention to annul Bezeq and Hot's structural separation as part of its plan to ensure massive investment in fiber optics infrastructure in Israel. In December 2016 the Ministry of Communications informed Bezeq that it intends to hold a public hearing regarding a possible annulment of the corporate separation and thereafter the structural separation in the Bezeq group.

An amendment to the Communications Law applies certain wholesale obligations on all landline operators, including the Company and requiring all landline operators to grant all other landline operators access to their passive infrastructure (except IBC's passive infrastructure), the terms of which (with the exclusion of Bezeq and Hot whose terms are set by the regulator) will be negotiated by the parties.

- C. The Ministry of Communications set certain requirements for the approval of network sharing, including the following principles: (1) sharing of passive elements of cell sites and active sharing of antennas among all cellular operators are encouraged; (2) active sharing of radio networks using shared equipment and frequencies will be allowed only between an operator with a partial 3G network deployment and an operator with a full 3G network deployment, whereas such sharing will not be allowed for two operators with full 3G network deployment; (3) sharing of transmission from cell sites among operators sharing frequencies is generally allowed; (4) approval of active sharing of radio networks using shared equipment and frequencies shall be for a limited period, only if there are at least three independent cellular networks in Israel, and is conditioned upon certain conditions, including: (i) the obligation to allow other operators to join on terms similar to the terms granted to the sharing operator with the smallest market share; (ii) the obligation to host a Mobile Virtual Network Operator without the other sharing operators' consent; (iii) the shared radio network must be operated through a joint entity held equally by the sharing operators, which entity will be required to obtain a license from the Ministry of Communications and will use the frequencies allocated to sharing operators; and (iv) the radio elements of the shared network will be held in equal parts by the sharing operators, and each of the sharing operators will have the right to use other sharing operators' passive infrastructure including following termination of the agreement.

For details regarding the Company's network sharing and hosting agreements with Xfone and Golan, see Note 30, regarding Commitments.

- D. In June 2016, a committee for the regulation of broadcasting nominated by the Ministry of Communications published its final recommendations, including classification of the audio visual providers in the market into categories and determination of the regulation applied to each class as follows: under 10% revenues market share - self regulation; more than 10% revenues market share - narrow regulation involving a mandatory license; and more than 10% revenues market share for 3 consecutive years - full regulation, including mandatory investments and original Israeli content financing. The implementation of such recommendations is subject to the adoption thereof by legislation.

Notes to the Consolidated Financial Statements

Note 32 - Regulation and Legislation (cont'd)

- E. In 2017, following the Ministry of Communication's requirement to unify the unified licenses held by each communications group into one unified license, the Company completed a reorganization of its subsidiaries, including Netvision, following which all the Company's fixed-line operation under the unified license are unified under the Company's wholly owned subsidiary Cellcom Fixed Line Communications, Limited Partnership.

Note 33 - Related Parties

A. Balance sheet

	December 31, 2016	December 31, 2017
	NIS millions	NIS millions
Current assets	1	2
Current liabilities	1	2
Long-term liability - debentures (including current maturity)*	3	-

* Debentures balance held by related parties, which includes debentures held for the benefit of the public, through, among others, provident funds, mutual funds and pension funds, as of December 31, 2017 and 2016, is NIS 19 million par value linked to the CPI and NIS 25 million par value linked to the CPI, respectively.

B. Transactions with related and interested parties executed in the ordinary course of business at regular commercial terms:

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Income:			
Revenues	16	17	13
Expenses:			
Cost of revenues and other	25	16	16

In the ordinary course of business, from time to time, the Group purchases, leases, sells and cooperates in the sale of goods and services or otherwise engages in transactions with entities that are members of the DIC/IDB group or other interested or related parties.

The Group has examined said transactions and believes them to be on commercial terms comparable to those that the Group could obtain from/ provide to unaffiliated parties.

C. Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to executive officers (such as a car, medical insurance, etc.), and contributes to a post-employment defined benefit plan on their behalf.

Notes to the Consolidated Financial Statements

Note 33 - Related Parties (cont'd)

The Group has undertaken to indemnify the Group's directors and officers, as well as certain other employees for certain events listed in the indemnifications letters given to them. The aggregate amount payable to all directors and officers and other employees who may have been or will be given such indemnification letters is limited to the amounts the Group receives from the Group's insurance policy plus 30% of the Group's shareholders' equity as of December 31, 2001 or NIS 486 million, adjusted for changes in the Israeli CPI.

Executive officers also participate in the Group's share option program (see Note 20, regarding Share-Based Payments).

Key management personnel compensation is comprised of:

	Year ended December 31,		
	2015	2016	2017
	NIS millions	NIS millions	NIS millions
Short-term employee benefits	4	4	6
Share-based payments	1	1	1
	5	5	7

D. Agreements with DIC

In October 2006, the Company entered into an agreement with DIC pursuant to which DIC provides the Company with advisory services in the areas of management, finance, business and accountancy. In 2015, the agreement was amended so that the annual consideration for DIC management services would be equal to the director's fees (both the annual fee and the meeting attendance fee) paid to the Company's external and independent director (which is in the amount of NIS 134,180 per year and NIS 4,035 per meeting, adjusted for changes in the Israeli CPI for October 2015), for each director that DIC nominates or proposes to the Company's Board of Directors, but no more than five directors (replacing the fixed consideration of NIS 2 million (linked to the Israeli Consumer Price Index for June 2006) plus VAT per year, paid to DIC until December 31, 2014). This agreement is for a term of one year and is automatically renewed for one-year terms (however the extension thereof after October 2018 requires the approvals of the parties organs according to the Israeli Companies Law), unless either party provides 60 days prior notice to the contrary. As of the balance sheet date, no directors' services are included in the agreement and no management fees are paid thereunder.

**סלקום ישראל בע"מ
וחברות מאוחדות שלה**

**תרגום נוחות בלבד
לדוחות הכספיים המאוחדים
ליום 31 בדצמבר 2017
(מבוקר)**

(הנוסח המחייב הינו הנוסח של הדוחות הכספיים באנגלית)

תוכן העניינים

עמוד

2	דוחות מאוחדים על המצב הכספי
3	דוחות רווח והפסד מאוחדים
4	דוחות מאוחדים על הרווח הכולל
5	דוחות מאוחדים על השינויים בהון
6	דוחות מאוחדים על תזרימי המזומנים
8	ביאורים לדוחות הכספיים

ליום 31 בדצמבר				
תרגום נוחות לדולר אמריקאי (ביאור 2 ד)				
2016	*2017	*2017	ביאור	
מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח		
				נכסים
1,240	152	527	8	מזומנים ושווי מזומנים
284	105	364		השקעות שוטפות, כולל נגזרים
1,325	369	1,280	9	לקוחות
25	1	4	28	נכסי מיסים שוטפים
61	26	89	9	חייבים ויתרות חובה
64	20	70	10	מלאי
<u>2,999</u>	<u>673</u>	<u>2,334</u>		סה"כ נכסים שוטפים
796	258	895	9	לקוחות וחייבים אחרים
1,659	461	1,598	11	רכוש קבוע, נטו
1,207	364	1,260	12	נכסים בלתי מוחשיים ואחרים, נטו
1	-	-	28	נכסי מיסים נדחים
<u>3,663</u>	<u>1,083</u>	<u>3,753</u>		סה"כ נכסים שאינם שוטפים
<u>6,662</u>	<u>1,756</u>	<u>6,087</u>		סה"כ נכסים
				התחייבויות
863	179	618	17	חלויות שוטפות של אג"ח ושל הלוואות
675	188	652	13	ממוסדות פיננסיים
-	1	4	28	ספקים והוצאות לשלם
108	26	91	14	התחייבויות מס שוטפות
279	80	277	15	הפרשות
<u>1,925</u>	<u>474</u>	<u>1,642</u>		זכאים ויתרות זכות, כולל נגזרים
				סה"כ התחייבויות שוטפות
340	134	462	17	הלוואות לזמן ארוך ממוסדות פיננסיים
2,866	681	2,360	17	אגרות חוב
30	6	21	14	הפרשות
31	4	15	16	התחייבויות אחרות לזמן ארוך
12	4	15	18	התחייבות בגין סיום יחסי עובד מעביד, נטו
118	38	131	28	התחייבויות מיסים נדחים
<u>3,397</u>	<u>867</u>	<u>3,004</u>		סה"כ התחייבויות שאינן שוטפות
<u>5,322</u>	<u>1,341</u>	<u>4,646</u>		סה"כ התחייבויות
			19	הון המשוויך לבעלי המניות של החברה
1	-	1		הון מניות
(1)	-	-		קרן גידור תזרימי מזומנים
1,322	414	1,436		עודפים
18	1	4		זכויות שאינן מקנות שליטה
<u>1,340</u>	<u>415</u>	<u>1,441</u>		סה"כ הון
<u>6,662</u>	<u>1,756</u>	<u>6,087</u>		סה"כ התחייבויות והון

תאריך אישור הדוחות הכספיים: 25 במרס, 2018.

* ראה ביאור 2 ו, בדבר אימוץ מוקדם של IFRS 15, הכנסות מחוזים עם לקוחות.

הביאורים לדוחות הכספיים המאוחדים מהווים חלק בלתי נפרד מהם.

לשנה שהסתיימה ביום 31 בדצמבר					
		תרגום נוחות לדולר אמריקאי (ביאור 2 ד)			
2015	2016	*2017	*2017	ביאור	
מיליוני ש"ח	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח		
4,180	4,027	1,117	3,871	22	הכנסות ממכירות ושירותים
(2,763)	(2,702)	(773)	(2,680)	23	עלות המכירות והשירותים
1,417	1,325	344	1,191		רווח גולמי
(620)	(574)	(138)	(479)	24	הוצאות מכירה ושיווק
(465)	(420)	(123)	(426)	25	הוצאות הנהלה וכלליות
(22)	(21)	3	11	26	הכנסות (הוצאות) אחרות, נטו
310	310	86	297		רווח מפעולות רגילות
55	46	15	52		הכנסות מימון
(232)	(196)	(57)	(196)		הוצאות מימון
(177)	(150)	(42)	(144)	27	הוצאות מימון, נטו
133	160	44	153		רווח לפני מיסים על הכנסה
(36)	(10)	(11)	(40)	28	הוצאות מיסים
97	150	33	113		רווח לשנה
					רווח מיוחס ל:
95	148	33	112		בעלים של החברה
2	2	-	1		זכויות שאינן מקנות שליטה
97	150	33	113		רווח לשנה
				19	רווח למניה
0.95	1.47	0.32	1.11		רווח בסיסי למניה (בש"ח)
0.95	1.47	0.32	1.10		רווח מדולל למניה (בש"ח)
100,589,458	100,604,578	100,654,935	100,654,935		ממוצע משוקלל של מספר המניות ששימשו לצורך חישוב הרווח הבסיסי למניה (במניות)
100,589,530	100,698,306	100,889,661	100,889,661		ממוצע משוקלל של מספר המניות ששימשו לצורך חישוב הרווח המדולל למניה (במניות)

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הביאורים לדוחות הכספיים המאוחדים מהווים חלק בלתי נפרד מהם.

לשנה שהסתיימה ביום 31 בדצמבר			
		תרגום נוחות לדולר אמריקאי (ביאור 2 ד)	
2015	2016	2017	2017
מיליוני ש"ח	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח
97	150	33	113
			רווח לשנה
			פריטי רווח כולל אחר שלאחר ההכרה לראשונה במסגרת הרווח הכולל הועברו או יועברו לרווח והפסד שינויים בשווי ההוגן של גידורי תזרים מזומנים שהועברו לדוח רווח והפסד, נטו ממס
1	1	-	1
			סה"כ רווח כולל אחר לשנה שלאחר ההכרה לראשונה במסגרת הרווח הכולל הועבר או יועבר לרווח והפסד, נטו ממס
1	1	-	1
			פריטי רווח כולל אחר שלא יועברו לרווח והפסד מדידה מחדש של תכנית הטבה מוגדרת, נטו ממס
(2)	(1)	-	-
			סה"כ הפסד כולל אחר לשנה שלא יועבר לרווח והפסד, נטו ממס
(2)	(1)	-	-
			רווח (הפסד) כולל אחר, נטו ממס
(1)	-	-	1
96	150	33	114
			סה"כ רווח כולל לשנה
94	148	33	113
			סה"כ רווח כולל מיוחס ל: בעלים של החברה זכויות שאינן מקנות שליטה סה"כ רווח כולל לשנה
2	2	-	1
96	150	33	114

הביאורים לדוחות הכספיים המאוחדים מהווים חלק בלתי נפרד מהם.

תרגום נוחות לדולר אמריקאי (ביאור 2 ד) מיליוני דולר	הון המשייך לבעלי המניות של החברה						
	סך הכל הון מיליוני ש"ח	זכויות שאינן מקנות שליטה מיליוני ש"ח	סך הכל מיליוני ש"ח	עודפים מיליוני ש"ח	קרן הון מיליוני ש"ח	הון מניות מיליוני ש"ח	
1,092	16	1,076	1,078	(3)	1	יתרה ליום 1 בינואר 2015	
						רווח כולל לשנה	
97	2	95	95	-	-	רווח לשנה	
(1)	-	(1)	(2)	1	-	רווח (הפסד) כולל אחר לשנה, נטו ממס עסקאות עם בעלים שנזקפו ישירות להון	
3	-	3	3	-	-	תשלום מבוסס מניות דיבידנד לזכויות שאינן מקנות שליטה בחברת בת אופציות שנרשמו בגין זכויות שאינן מקנות שליטה בחברה מאוחדת	
(5)	(1)	(4)	(4)	-	-		
1,185	16	1,169	1,170	(2)	1	יתרה ליום 31 בדצמבר 2015	
						רווח כולל לשנה	
150	2	148	148	-	-	רווח לשנה	
-	-	-	(1)	1	-	רווח (הפסד) כולל אחר לשנה, נטו ממס עסקאות עם בעלים שנזקפו ישירות להון	
6	1	5	5	-	-	תשלומים מבוססי מניות דיבידנד לזכויות שאינן מקנות שליטה בחברת בת	
(1)	(1)	-	-	-	-		
386	1,340	18	1,322	1,322	(1)	1	יתרה ליום 31 בדצמבר 2016
						רווח כולל לשנה	
33	113	1	112	112	-	-	רווח לשנה
-	1	-	1	-	1	-	רווח כולל אחר לשנה, נטו ממס עסקאות עם בעלים שנזקפו ישירות להון
-	2	-	2	2	-	-	תשלום מבוסס מניות גריעת זכויות שאינן מקנות שליטה בשל איבוד שליטה בחברה מאוחדת (ראה ביאור 7 ב)
(4)	(15)	(15)	-	-	-	-	
415	1,441	4	1,437	1,436	-	1	יתרה ליום 31 בדצמבר 2017

הביאורים לדוחות הכספיים המאוחדים מהווים חלק בלתי נפרד מהם.

לשנה שהסתיימה ביום 31 בדצמבר				
תרגום נוחות לדולר אמריקאי (ביאור 2 ד)				
2015	2016	*2017	*2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח	
97	150	33	113	תזרימי מזומנים מפעילות שוטפת
				רווח לשנה
				התאמות:
562	534	160	555	פחת והפחתות
3	6	-	2	תשלומים מבוסס מניות
(1)	10	-	(1)	הפסד (רווח) ממכירת רכוש קבוע
-	-	(3)	(10)	רווח ממכירת מניות בחברה מאוחדת (ראה ביאור 7ב)
36	10	11	40	הוצאות מסים
177	150	42	144	הוצאות מימון, נטו
				שינויים בסעיפי נכסים והתחייבויות:
4	21	(2)	(6)	שינוי במלאי
209	(28)	38	132	שינוי בלקוחות (כולל לקוחות לזמן ארוך)
(34)	(5)	(55)	(191)	שינוי בחייבים (כולל חייבים לזמן ארוך)
(54)	-	(8)	(27)	שינוי בספקים, הוצאות לשלם והפרשות שינוי בהתחייבויות אחרות (כולל התחייבויות לזמן ארוך)
(95)	20	8	28	תשלומים בגין מכשירים נגזרים מגדרים, נטו
-	-	(1)	(3)	מס הכנסה ששולם
(68)	(88)	(12)	(44)	מס הכנסה שהתקבל
-	1	12	42	מזומנים נטו שנבעו מפעילות שוטפת
836	781	223	774	תזרימי מזומנים מפעילות השקעה
(305)	(295)	(100)	(346)	רכישת רכוש קבוע
(91)	(73)	(68)	(237)	תוספות לנכסים בלתי מוחשיים ואחרים דיבידנד שהתקבל
2	-	-	-	שינוי בהשקעות שוטפות, נטו
231	(9)	(22)	(77)	תמורה ממימוש רכוש קבוע
4	2	-	1	ריבית שהתקבלה
15	11	3	12	פידיון של פיקדון לזמן ארוך
48	-	-	-	תמורה ממכירה של מניות חברה מאוחדת, נטו ממזומנים שנגרעו (ראה ביאור 7 ב)
-	-	1	3	מזומנים נטו ששימשו לפעילות השקעה
(96)	(364)	(186)	(644)	

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הביאורים לדוחות הכספיים המאוחדים מהווים חלק בלתי נפרד מהם.

לשנה שהסתיימה ביום 31 בדצמבר			
		תרגום נוחות לדולר אמריקאי (ביאור 2 ד)	
2015	2016	*2017	*2017
מיליוני ש"ח	מיליוני ש"ח	מיליוני דולר	מיליוני ש"ח
			תזרימי מזומנים מפעילות מימון
(32)	(13)	(1)	תשלומים בגין מכשירים נגזרים, נטו
-	340	58	קבלת הלוואות לזמן ארוך ממוסדות פיננסיים
(873)	(732)	(249)	תשלומים בגין אגרות חוב
(3)	653	-	תמורה מהנפקת אגרות חוב בניכוי עלויות הנפקה
(1)	(1)	-	דיבינד ששולם
(227)	(185)	(51)	ריבית ששולמה
			מזומנים נטו שנבעו (ששימשו) מפעילות מימון
(1,136)	62	(243)	(843)
(396)	479	(206)	(713)
			שינויים במזומנים ושווי מזומנים
1,158	761	358	1,240
			יתרת מזומנים ושווי מזומנים לתחילת השנה
(1)	-	-	-
			השפעת תנודות בשער החליפין על יתרות מזומנים ושווי מזומנים
761	1,240	152	527
			יתרת מזומנים ושווי מזומנים לסוף השנה

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הביאורים לדוחות הכספיים המאוחדים מהווים חלק בלתי נפרד מהם.

ביאור 1 - כללי

א. סלקום ישראל בע"מ ("החברה") הינה חברה תושבת ישראל, אשר התאגדה בישראל וכתובתה הרשמית היא רחוב הגביש 10, נתניה, 4250708. הדוחות הכספיים המאוחדים של הקבוצה ליום 31 בדצמבר, 2017, כוללים את החברה והחברות הבנות שלה ("הקבוצה"). הקבוצה מפעילה ומתחזקת מערכת תקשורת סלולארית בישראל ומספקת שירותי תקשורת סלולארית וקווי, שירותי אינטרנט, שירותי שיחות בינלאומיות, שירותי טלוויזיה על גבי האינטרנט (הידועים כ-Over the top TV Services או OTT TV Services) ושירותי תמסורת. החברה הינה בשליטת כור תעשיות בע"מ, אשר הינה חברה בבעלות מלאה של חברת השקעות דיסקונט בע"מ ("דסק"ש"), שבשליטת חברות בשליטתו של מר אדוארדו אלשטיין.

ב. אירוע מהותי בתקופת הדיווח - שינוי אומדן

במהלך תקופת הדיווח, שינתה החברה את אומדן משך השימוש החזוי בפריטי רכוש קבוע ונכסים בלתי מוחשיים מסוימים. למידע נוסף ראה ביאור 2, בדבר בסיס עריכת הדוחות הכספיים.

ביאור 2 - בסיס עריכת הדוחות הכספיים

א. הצהרה על עמידה בתקני דיווח כספי בינלאומיים

הדוחות הכספיים המאוחדים הוכנו על ידי הקבוצה בהתאם לתקני דיווח כספי בינלאומיים (להלן: "IFRS").

דוחות כספיים מאוחדים אלו, אושרו לפרסום על ידי דירקטוריון החברה ביום 25 במרס, 2018.

ב. מטבע פעילות ומטבע הצגה

הדוחות הכספיים המאוחדים מוצגים בש"ח, שהינו מטבע הפעילות של הקבוצה, ומעוגלים למיליון הקרוב, למעט אם צוין אחרת. השקל הינו המטבע שמייצג את הסביבה הכלכלית העיקרית בה פועלת הקבוצה.

ג. בסיס המדידה

הדוחות הכספיים המאוחדים הוכנו על בסיס העלות ההיסטורית למעט הנכסים וההתחייבויות הבאים: השקעות שוטפות ומכשירים פיננסיים נגזרים הנמדדים בשווי הוגן דרך רווח והפסד, נכסי והתחייבויות מיסים נדחים, נכסים והתחייבויות בגין הטבות לעובדים והפרשות.

למידע נוסף בדבר אופן המדידה של נכסים והתחייבויות אלו ראה ביאור 3, בדבר עיקרי המדיניות החשבונאית.

ד. תרגום נוחות לדולרים של ארה"ב ("דולרים" או "\$")

לצורך נוחות קורא הדוחות הכספיים, המספרים המדווחים בש"ח ליום 31 בדצמבר 2017 ולשנה שהסתיימה באותו תאריך, הוצגו בדולר ארה"ב, לפי השער היציג של דולר ארה"ב כפי שפורסם על ידי בנק ישראל ליום 31 בדצמבר 2017 (\$1.00 = 3.467 ש"ח). אין להסיק כי, הסכום הדולרי המוצג בדוחות הכספיים מייצג סכומים לקבל או לשלם בדולרים, או שניתן להמירם לדולרים, אלא אם צוין אחרת.

ה. שימוש באומדנים ובשיקול דעת

שימוש באומדנים

מידע בדבר הערכות, אי ודאות ושיקול דעת קריטי לגבי הפרשות והתחייבויות תלויות, מפורט בביאורים 14 ו-31. בנוסף, מידע לגבי אומדנים קריטיים שנערכו תוך יישום המדיניות החשבונאית והם בעלי השפעה מהותית על הדוחות הכספיים מוצג להלן:

בחינת ירידת ערך של יתרות לקוחות וחייבים אחרים

הדוחות הכספיים כוללים ירידת ערך לקוחות וחייבים אחרים המשקפים באופן נאות, בהתאם להערכות ההנהלה, את ההפסד הפוטנציאלי מיתרות שאינן ניתנות לגביה. הקבוצה מפרישה לירידת ערך בהתבסס על ניסיון העבר בגביית חובות, וכן על בסיס מידע ספציפי על בעלי חוב. המרכיבים העיקריים של הפרשה זו הינם רכיב הפסד ספציפי המיוחס לחשיפות משמעותיות המזוהות בנפרד, ולרכיב הפסד גלובלי המבוסס על קבוצה של נכסים דומים בהתייחס להפסדים שאירעו אך עדיין לא זוהו. ההפרשה הגלובלית להפסד נקבעת על בסיס סטטיסטיקה של היסטוריית התשלומים בגין נכסים דומים. ראה בנוסף ביאור 21.

ביאור 2 - בסיס עריכת הדוחות הכספיים (המשך)

ה. שימוש באומדנים ובשיקול דעת (המשך)

בחינת ירידת ערך ואורך חיי נכסים

הקבוצה בוחנת באופן שוטף את הערך בספרים של נכסיה על מנת לקבוע האם קיימת אינדיקציה לביצוע ירידת ערך. ראה בנוסף ביאור 3 ח.

אורך החיים הכלכלי של נכסי הקבוצה נקבע על ידי ההנהלה בזמן רכישת הנכסים, ונאותותו נבחנת באופן שוטף. הקבוצה מגדירה את אורך חיי נכסיה בהתאם לתקופה הצפויה שבה עתידים הנכסים להפיק תועלת לקבוצה. הערכה זו מבוססת על ניסיון הקבוצה עם נכסים דומים. אורך החיים הכלכלי של רישיונות מבוסס על משך תקופת הרישיון. אורך החיים הכלכלי של עלויות השגת חוזה שהווננו מבוסס על תקופת השירות הצפויה בגין חוזים אלה. ראה בנוסף ביאורים 3 ו-3 ו.

בחינת ירידת ערך מוניטין

הקבוצה בוחנת ירידת ערך של יחידה מניבת מזומנים שיוחס לה מוניטין לפחות אחת לשנה. קביעת שווי שימוש מחייבת את ההנהלה לבצע אומדן של תזרימי מזומנים עתידיים הצפויים לנבוע משימוש מתמשך ביחידה מניבת המזומנים ואף לאמוד שיעור ניכיון מתאים לתזרימי מזומנים אלה המשקף את הערכות השוק לגבי ערך הזמן של הכסף והסיכונים הספציפיים המתייחסים ליחידה מניבת המזומנים. קביעת האומדנים של תזרימי המזומנים מתבססת על ניסיון העבר של ההנהלה, ועל מיטב הערכת ההנהלה לגבי התנאים הכלכליים שישררו במהלך יתרת אורך החיים השימושיים של היחידה מניבת המזומנים. ראה מידע נוסף בביאור 3 ח.

תביעות משפטיות

בהערכות סיכויי התביעות המשפטיות שהוגשו נגד החברה וחברות מוחזקות שלה, הקבוצה מביאה בחשבון את חוות דעת יועציה המשפטיים ומיטב שיפוטם המקצועי, השלב בו מצויים ההליכים, וכן הניסיון המשפטי שנצבר בנושאים השונים. מאחר שתוצאות התביעות תקבענה בבתי המשפט, עלולות תוצאות אלה להיות שונות מהערכות אלה. ראה בנוסף ביאור 31.

עמדות מס לא וודאיות

בקביעת סכומי המיסים השוטפים והנדחים, הקבוצה לוקחת בחשבון את ההשפעה של אי הוודאות לעניין קבלת עמדות המס שלה (uncertain tax positions) והאם הקבוצה תישא בהוצאות מס וריבית נוספות. הקבוצה בדעה כי התחייבות המס המצטברת הינה נאותה עבור כל השנים אשר טרם נתקבלו בגין שומות מס סופיות בהתבסס על ניתוח של מספר גורמים, לרבות פרשנויות של חוקי המס וניסיון העבר של הקבוצה. הערכה זו מתבססת על אומדנים והנחות אשר עשויים לכלול גם הערכות והפעלת שיקול דעת באשר לאירועים עתידיים. יתכן, כי בתקופות עתידיות, יתגלה מידע חדש אשר יצריך את הקבוצה לשנות את האומדן שלה באשר להתחייבות המס שהוכרה, שינויים כאמור ייקפו כהוצאה מיידית באותה תקופה. ראה בנוסף ביאור 28.

שינוי באומדנים

במהלך השנה שהסתיימה ביום 31 בדצמבר 2017, עדכנה ההנהלה אומדנים כדלהלן:

1. לקראת מועד הסיום המקורי של הפחתת תדרי דור 2 ודור 3 של החברה (להלן - "התדרים"), וועדת הפחת השנתית של החברה בחנה את אומדן אורך החיים השימושיים של התדרים. על פי הערכת החברה, התדרים ימשיכו לשמש את החברה לפחות ב-10 השנים הקרובות.

אומדן אורך החיים השימושיים של התדרים נקבע בעבר בהתאם לתקופת רישיון הרט"ן של החברה (עד שנת 2022). על פי הדין החל, רישיון הרט"ן של החברה ניתן להארכה לתקופות נוספות של 6 שנים, בתנאים הקבועים ברישיון. על פי הערכת החברה, על בסיס ניסיונה והיכרותה את שוק התקשורת בישראל, בהתקיים המשך התנאים החלים כעת, קיימת ודאות גבוהה שהרישיון יוארך לתקופה נוספת בת 6 שנים.

לאור האמור לעיל, אומדן אורך החיים השימושיים של התדרים הוערך מחדש, לראשונה, לתקופה נוספת של 10 שנים החל מתחילת הרבעון השני של שנת 2017 ועד שנת 2028 (לעומת 20-18 שנים המסתיימות בשנת 2022, כפי שהוערך במקור).

2. לאור הניסיון שנצבר בפעילות הקבוצה בקשר עם שירותי אינטרנט ושירותי טלוויזיה על גבי האינטרנט, וועדת הפחת השנתית של החברה בחנה את אומדן אורך החיים השימושיים של פריטי רכוש קבוע מסוימים המשמשים במתן השירותים הללו. בעקבות בחינה זו, אומדן אורך החיים השימושיים של הפריטים האמורים הוערך מחדש לראשונה, מתחילת הרבעון הרביעי של שנת 2017, ל-6-3 שנים מיום רכישתם (לעומת 2-3 שנים, כפי שהוערך במקור).

השפעת שינויים אלו על הדוחות הכספיים השנתיים בשנה השוטפת ובשנים העוקבות הינה כדלקמן:

מקן	2021	2020	2019	2018	2017	
	מיליוני ש"ח					
	6	5	17	33	19	קיטון (גידול) בהוצאות הפחת
לאחר מקן	(80)					

ביאור 2 - בסיס עריכת הדוחות הכספיים (המשך)

ו. שינויים במדיניות החשבונאית

תקן דיווח כספי בינלאומי 15 (IFRS 15), הכנסה מחוזים עם לקוחות

החל מיום 1 בינואר 2017, הקבוצה יישמה באימוץ מוקדם את תקן דיווח כספי בינלאומי 15 ("IFRS15" או "התקן") אשר קובע הנחיות להכרה בהכנסה.

התקן מציג מודל חדש בן חמישה שלבים לעניין הטיפול החשבונאי בהכנסות הנובעות מחוזים עם לקוחות:

- (1) זיהוי החוזה עם הלקוח.
- (2) זיהוי מחויבויות ביצוע נפרדות בחוזה.
- (3) קביעת מחיר העסקה.
- (4) הקצאת מחיר העסקה לכל מחויבות ביצוע נפרדת.
- (5) הכרה בהכנסה בעת עמידה במחויבות ביצוע.

התקן יושם החל ממועד היישום לראשונה בגישת ההשפעה המצטברת. לשינוי כאמור, בגין חוזים אשר טרם הסתיימו עד למועד המעבר, לא היתה השפעה מהותית על יתרת העודפים למועד היישום לראשונה.

הקבוצה בחרה ליישם את ההקלות הבאות במסגרת היישום לראשונה של התקן:

- (1) יישום גישת ההשפעה המצטברת רק עבור חוזים אשר טרם הסתיימו למועד המעבר; וכן
- (2) בחינת ההשפעה המצרפית של שינויים בחוזה שאירעו לפני מועד היישום לראשונה, חלף בחינה של כל שינוי באופן נפרד.

ליישום המודל האמור לא הייתה השפעה מהותית על מדידת ההכנסות בקבוצה בתקופה הנוכחית לעומת התקינה הקודמת.

ההשפעה העיקרית של יישום התקן על הדוחות הכספיים של הקבוצה הינה שעלויות השגת חוזה מהוונות לנכס כאשר צפוי כי הקבוצה תשיב עלויות אלו, חלף ההכרה בהוצאה במועד היווצרותה, כפי שנעשה טרם אימוץ התקן. בהתאם לכך, תמריצים ועמלות תוספתיים המשולמים לעובדי הקבוצה ולמשווקים בגין השגת חוזים עם לקוחות, מוכרים כנכס ומופחתים לדוח רווח והפסד בהתאם לתקופת השירות הצפויה בגין חוזים אלו (על פני תקופה של 2-3 שנים). להיוון עלויות השגת חוזים כאמור, היתה השפעה חיובית מהותית על תוצאות פעילות הקבוצה בשנת 2017 שצפויה להמשיך בשנים הקרובות. ההשפעה תתאזן בשנים מאוחרות יותר.

בדוחות על תזרימי המזומנים, עלויות השגת חוזה ששולמו, מוצגות במסגרת תזרימי מזומנים ששימשו לפעילות השקעה והפחתת עלויות השגת חוזה שהוונו, מוצגת תחת פחת והפחתות במסגרת תזרימי מזומנים מפעילות שוטפת.

הקבוצה מיישמת את ההקלה המעשית שנקבעה בתקן ומכירה בהוצאה בדוח רווח והפסד בגין עלויות להשגת חוזה כאשר תקופת ההפחתה הצפויה של אותן עלויות, הינה שנה אחת או פחות.

הטבלאות מטה מציגות את ההשפעות על הדוחות המאוחדים על המצב הכספי של הקבוצה ליום 31 בדצמבר 2017 ועל דוחות הרווח והפסד מאוחדים של הקבוצה לשנה שהסתיימה באותו תאריך, בהנחה שהמדיניות הקודמת לגבי הכרה בהכנסה הייתה ממשיכה בתקופה זו.

השפעה על הדוחות המאוחדים על המצב הכספי ליום 31 בדצמבר 2017:

בהתאם ל- IFRS 15	השפעת התקן* מיליוני ש"ח	בהתאם למדיניות הקודמת	
1,260	93	1,167	נכסים בלתי מוחשיים ואחרים, נטו
-	(22)	22	נכסי מס שוטפים, נטו
1,436	71	1,365	עודפים

ביאור 2 - בסיס עריכת הדוחות הכספיים (המשך)

1. שינויים במדיניות החשבונאית (המשך)

תקן דיווח כספי בינלאומי 15 (IFRS 15), הכנסה מחוזים עם לקוחות (המשך)

השפעה על דוחות רווח והפסד מאוחדים לשנה שהסתיימה ביום 31 בדצמבר 2017:

בהתאם ל- IFRS 15	השפעת התקן* מיליוני ש"ח (בלתי מבוקר)	בהתאם למדיניות הקודמת	
3,871	-	3,871	הכנסות ממכירות ושירותים
(2,680)	-	(2,680)	עלות המכירות והשירותים
1,191	-	1,191	רווח גולמי
(479)	93	(572)	הוצאות מכירה ושיווק
(426)	-	(426)	הוצאות הנהלה וכלליות
11	-	11	הכנסות אחרות, נטו
297	93	204	רווח מפעולות רגילות
52	-	52	הכנסות מימון
(196)	-	(196)	הוצאות מימון
(144)	-	(144)	הוצאות מימון, נטו
153	93	60	רווח לפני מיסים על הכנסה
(40)	(22)	(18)	מיסים על הכנסה
113	71	42	רווח לשנה
			רווח מיוחס ל:
112	71	41	בעלים של החברה
1	-	1	זכויות שאינן מקנות שליטה
113	71	42	רווח לשנה
			רווח למניה
1.11	0.71	0.40	רווח בסיסי למניה (בש"ח)
1.10	0.70	0.40	רווח מדולל למניה (בש"ח)

ביאור 2 - בסיס עריכת הדוחות הכספיים (המשך)

1. שינויים במדיניות החשבונאית (המשך)

תקן דיווח כספי בינלאומי 15 (IFRS 15), הכנסה מחוזים עם לקוחות (המשך)

השפעה על דוחות תזרים מזומנים מאוחדים לשנה שהסתיימה ביום 31 בדצמבר 2017:

ל-	בהתאם	בהתאם למדיניות		
	IFRS 15	השפעת התקן* מיליוני ש"ח	הקודמת	
	774 (644)	107 (107)	667 (537)	מזומנים נטו שנבעו מפעילות שוטפת תזרימי מזומנים ששימשו לפעילות השקעה

* בהתאם לתקן, עלויות תוספתיות של השגת חוזה עם לקוח מוכרות ככנס כאשר צפוי כי הקבוצה תשיב עלויות אלו. בהתאם לכך, תמריצים ועמלות תוספתיים המשולמים לעובדי הקבוצה ולמשווקים בגין השגת חוזים עם לקוחות, מוכרים ככנס מופחתים לדוח רווח והפסד בהתאם לתקופת השירות הצפויה בגין חוזים אלו.

תיקון ל- IAS 7, דוח על תזרימי מזומנים

בהתאם לתיקון, יש לספק גילויים שיאפשרו למשתמשי הדוחות הכספיים להעריך שינויים בהתחייבויות מפעילויות מימון, כולל הן שינויים הנובעים מתזרימי מזומנים והן שינויים שאינם במזומנים. גילויים אלה יינתנו בקשר לשינויים הבאים בהתחייבויות הנובעות מפעילויות מימון:

- שינויים כתוצאה מתזרימי מזומנים מפעילויות מימון;
- שינויים הנובעים מהשגת שליטה או מאיבוד שליטה על חברות בנות או עסקים אחרים;
- השפעת השינויים בשערי חליפין של מטבע חוץ;
- שינויים בשווי הוגן;
- וכן שינויים אחרים.

התיקון יושם באופן פרוספקטיבי. דרישות הגילוי החדשות שולבו במסגרת ביאור 17, בדבר אג"ח והלוואות לזמן ארוך ממוסדות פיננסיים.

2. להלן פירוט מדדי המחירים לצרכן (מדד ידוע) ושערי החליפין של הדולר של ארה"ב:

מדד המחירים לצרכן (בנקודות)*	שערי חליפין של הדולר של ארה"ב	
221.35	3.467	ליום 31 בדצמבר, 2017
220.68	3.845	ליום 31 בדצמבר, 2016
221.35	3.902	ליום 31 בדצמבר, 2015
שיעורי השינוי :		
0.30%	(9.83%)	לשנה שנסתיימה ביום 31 בדצמבר, 2017
(0.30%)	(1.46%)	לשנה שנסתיימה ביום 31 בדצמבר, 2016
(0.90%)	0.33%	לשנה שנסתיימה ביום 31 בדצמבר, 2015

* לפי מדד בסיס 1993.

ביאור 3 - מדיניות חשבונאית

כללי המדיניות החשבונאית המפורטת להלן יושמו בעקביות לכל התקופות המוצגות בדוחות מאוחדים אלה על ידי הקבוצה, למעט כמתואר בסעיף שינויים במדיניות החשבונאית בביאור 2, בדבר בסיס עריכת הדוחות הכספיים.

א. בסיס האיחוד

1. חברות בנות

חברות בנות הינן ישויות הנשלטות על ידי החברה במישרין או בעקיפין. הדוחות הכספיים של חברות בנות נכללים בדוחות הכספיים המאוחדים מיום השגת השליטה ועד ליום אובדן השליטה. המדיניות החשבונאית של חברות בנות שונתה במידת הצורך על מנת להתאימה למדיניות החשבונאית שאומצה על ידי הקבוצה.

2. זכויות שאינן מקנות שליטה

זכויות שאינן מקנות שליטה הן ההון בחברה בת שאינו ניתן לייחוס, במישרין או בעקיפין, לחברה האם. רווח או הפסד וכל רכיב של רווח כולל אחר מיוחסים לבעלים של החברה האם ולזכויות שאינן מקנות שליטה.

הנפקת אופציית מכר (put) לבעלי זכויות שאינן מקנות שליטה

אופציית מכר שהונפקה על ידי הקבוצה לבעלי זכויות שאינן מקנות שליטה המסולקת במזומן או במכשיר פיננסי אחר, מוכרת כהתחייבות בגובה הערך הנוכחי של תוספת המימוש. בתקופות עוקבות, שינויים בהתחייבויות בגין אופציית מכר שהונפקה על ידי הקבוצה לבעלי זכויות שאינן מקנות שליטה מוכרים בדוח רווח והפסד לפי שיטת הריבית האפקטיבית.

חלק הקבוצה ברווחי חברה בת כולל את חלקם של בעלי הזכויות שאינן מקנות שליטה, להם הנפיקה הקבוצה אופציית מכר.

3. אובדן שליטה

בעת אובדן שליטה, הקבוצה גורעת את הנכסים ואת ההתחייבויות של החברה הבת, זכויות כלשהן שאינן מקנות שליטה ורכיבים אחרים של הון המיוחסים לחברה הבת.

4. עסקאות שבוטלו באיחוד

יתרות הדדיות בקבוצה והכנסות והוצאות שטרם מומשו, הנבעות מעסקאות בין חברתיות, בוטלו במסגרת הכנת הדוחות הכספיים המאוחדים.

ב. עסקאות במטבע חוץ

עסקאות במטבע חוץ מתורגמות לש"ח לפי שער החליפין שבתוקף בתאריכי העסקאות. נכסים והתחייבויות כספיים הנקובים במטבע חוץ במועד הדיווח, מתורגמים לש"ח לפי שער החליפין שבתוקף לאותו יום. נכסים והתחייבויות לא כספיים הנקובים במטבע חוץ והנמדדים לפי עלות היסטורית, מתורגמים לפי שער החליפין שבתוקף למועד העסקה. נכסים והתחייבויות לא כספיים הנקובים במטבע חוץ והנמדדים לפי שווי הוגן, מתורגמים לש"ח לפי שער החליפין שבתוקף ביום בו נקבע השווי ההוגן. הפרשי שער הנובעים מתרגום לש"ח מוכרים ברווח והפסד.

ג. מכשירים פיננסיים

הקבוצה יישמה באימוץ מוקדם את תקן דיווח כספי בינלאומי (IFRS 9 (2009), מכשירים פיננסיים (להלן "תקן 9"), אשר כלל הנחיות באשר לסיווג ולמדידה של נכסים פיננסיים, מבלי לאמץ באימוץ מוקדם את יתר הכללים שנקבעו בגרסה הסופית בתקן IFRS 9 (2014), מכשירים פיננסיים הנזכר בסעיף יח להלן.

תקן 9 דורש שחברה תסווג את נכסיה הפיננסיים כנמדדים בעלות מופחתת או בשווי הוגן בהתחשב במודל העסקי שלה לניהול הנכסים הפיננסיים ובמאפייני תזרימי המזומנים החוזיים של אותם נכסים פיננסיים.

1. נכסים פיננסיים שאינם נגזרים

הכרה לראשונה בנכסים פיננסיים

הקבוצה מכירה לראשונה בחיבים ובפיקדונות במועד היווצרותם. יתר הנכסים הפיננסיים הנרכשים בדרך הרגילה (regular way purchase), לרבות נכסים אשר יועדו לשווי הוגן דרך רווח והפסד, מוכרים לראשונה במועד קשירת העסקה (trade date) בו הקבוצה הופכת לצד לתנאים החוזיים של המכשיר, משמע המועד בו התחייבה הקבוצה לקנות או למכור את הנכס. נכסים פיננסיים נמדדים לראשונה בשווי הוגן. אם המדידה העוקבת של הנכס הפיננסי איננה בשווי הוגן דרך רווח והפסד, אזי המדידה לראשונה כוללת עלויות עסקה הניתנות לייחוס במישרין לרכישה או ליצירה של הנכס.

ביאור 3 - מדיניות חשבונאית (המשך)

ג. מכשירים פיננסיים (המשך)

1. נכסים פיננסיים שאינם נגזרים (המשך)

לאחר ההכרה לראשונה הקבוצה מודדת נכסים פיננסיים בשווי הוגן או בעלות מופחתת כמפורט להלן:

נכסים פיננסיים הנמדדים בעלות מופחתת

נכס פיננסי נמדד לאחר ההכרה לראשונה בעלות מופחתת, תוך שימוש בשיטת הריבית האפקטיבית ובניכוי הפסד מירידות ערך, אם הוא:

- מוחזק במסגרת מודל עסקי שמטרתו להחזיק בנכסים כדי לגבות את תזרימי המזומנים החוזיים;
- אם על פי התנאים החוזיים של הנכס הפיננסי, הוא מניב בתאריכים ספציפיים תזרימי מזומנים המהווים תשלומי קרן וריבית בלבד, וכן
- הקבוצה לא בחרה לייעדו לשווי הוגן דרך רווח והפסד כדי להפחית משמעותית או לבטל חוסר עקביות חשבונאית (accounting mismatch).

נכסים פיננסיים הנמדדים בעלות מופחתת כוללים: מזומנים ושווי מזומנים, לקוחות, וחייבים ויתרות חובה. מזומנים ושווי מזומנים כוללים יתרות מזומנים הניתנים לשימוש מיידי ופיקדונות לפי דרישה. שווי מזומנים כוללים השקעות לזמן קצר אשר משך הזמן ממועד ההפקדה המקורי ועד למועד הפדיון הינו עד 3 חודשים, ברמת נזילות גבוהה אשר ניתנות להמרה בנקל לסכומים ידועים של מזומנים ואשר חשופות לסיכון בלתי משמעותי של שינויים בשווי.

נכסים פיננסיים הנמדדים בשווי הוגן

כל הנכסים הפיננסיים שאינם נמדדים בעלות מופחתת, נמדדים לאחר ההכרה לראשונה בשווי הוגן, כאשר כל השינויים בשוויים ההוגן נזקפים לרווח והפסד.

גרירת נכסים פיננסיים

נכסים פיננסיים נגרעים כאשר הזכויות החוזיות של הקבוצה לתזרימי המזומנים הנובעים מהנכס הפיננסי פוקעות, או כאשר הקבוצה מעבירה את הזכויות לקבל את תזרימי המזומנים הנובעים מהנכס הפיננסי בעסקה בה כל הסיכונים וההטבות מהבעלות על הנכס הפיננסי עוברים למעשה. מכירות נכסים פיננסיים הנעשות בדרך הרגילה (regular way sale), מוכרות במועד קשירת העסקה (trade date), משמע, במועד בו התחייבה הקבוצה למכור את הנכס. לעניין מדיניות הקבוצה באשר לירידת ערך ראה סעיף ח.

קיזוז מכשירים פיננסיים - ראה סעיף 2 להלן.

2. התחייבויות פיננסיות שאינן נגזרים

הקבוצה מכירה לראשונה במכשירי חוב שהונפקו במועד היווצרותם. יתר התחייבויות הפיננסיות מוכרות לראשונה במועד קשירת העסקה (trade date) בו הקבוצה הופכת לצד לתנאים החוזיים של המכשיר. התחייבויות פיננסיות מוכרות לראשונה בשווי הוגן בתוספת כל עלויות העסקה הניתנות לייחוס. לאחר ההכרה לראשונה, התחייבויות פיננסיות נמדדות בעלות המופחתת בהתאם לשיטת הריבית האפקטיבית.

התחייבויות פיננסיות שאינן נגזרים כוללות: אגרות חוב, הלוואות ממוסדות פיננסיים, ספקים וזכאים ויתרות זכות.

התחייבויות פיננסיות נגרעות כאשר מחויבות הקבוצה, כמפורט בהסכם, פוקעת או כאשר היא סולקה או בוטלה.

קיזוז מכשירים פיננסיים

נכסים פיננסיים והתחייבויות פיננסיות מקוזזים והסכומים מוצגים בנטו בדוח על המצב הכספי כאשר לקבוצה קיימת באופן מיידי (currently) זכות משפטית ניתנת לאכיפה לקזז את הסכומים שהוכרו וכן כוונה לסלק את הנכס וההתחייבות על בסיס נטו או לממש את הנכס ולסלק את ההתחייבות בו-זמנית.

שינוי תנאים של מכשירי חוב

החלפת מכשירי חוב, בעלי תנאים שונים באופן מהותי, בין לווה לבין מלווה קיימים מטופלת כסילוק ההתחייבות הפיננסית המקורית והכרה בהתחייבות פיננסית חדשה בשווי הוגן. במקרים כאמור כל ההפרש בין העלות המופחתת של ההתחייבות הפיננסית המקורית לבין השווי הוגן של ההתחייבות הפיננסית החדשה מוכר ברווח והפסד בסעיף הכנסות או הוצאות מימון.

ביאור 3 - מדיניות חשבונאית (המשך)

ג. מכשירים פיננסיים (המשך)

2. התחייבויות פיננסיות שאינן נגזרים (המשך)

התנאים שונים באופן מהותי אם הערך הנוכחי המהווה של תזרימי המזומנים לפי התנאים החדשים, כולל עמלות כלשהן ששולמו, בניכוי עמלות כלשהן שהתקבלו ומהווה באמצעות שיעור הריבית האפקטיבי המקורי, הינו שונה לפחות בעשרה אחוזים מהערך הנוכחי המהווה של תזרימי המזומנים הנוטרים של ההתחייבות הפיננסית המקורית. בנוסף למבחן הכמותי כאמור, הקבוצה בוחנת, בין היתר, האם חלו שינויים גם בפרמטרים כלכליים שונים הגלומים במכשירי החוב המוחלפים. לפיכך, ככלל, החלפות של מכשירי חוב צמודים למדד במכשירים שאינם צמודים למדד נחשבות כהחלפות בעלות תנאים שונים באופן מהותי גם אם אינן מקיימות את המבחן הכמותי שבוצע לעיל.

הרחבת סדרות אגרות חוב תמורת מזומן

בעת הרחבת סדרות אגרות חוב תמורת מזומן, נמדדות לראשונה אגרות החוב בהתאם לשווי ההוגן שהינו התמורה שנתקבלה בהנפקה (מאחר וזהו השוק המיטבי ביותר אשר למנפיק יש גישה מיידית אליו), ללא כל הכרה ברווח או בהפסד בגין ההפרש בין תמורת ההנפקה לשווי הבורסאי של אגרות החוב הסחירות בסמוך להנפקתן.

3. מכשירים פיננסיים נגזרים, לרבות חשבונאות גידור

הקבוצה מחזיקה מכשירים פיננסיים נגזרים לצרכי גידור סיכונים מטבע חוץ וסיכונים מדד המחירים לצרכן.

נגזרים מוכרים לראשונה לפי שווי הוגן; עלויות עסקה הניתנות לייחוס נזקפות לרווח והפסד עם התהוותן. לאחר ההכרה הראשונית, נמדדים הנגזרים לפי שווי הוגן. השינויים בשווי ההוגן מטופלים כמתואר להלן:

גידור תזרימי מזומנים

שינויים בשווי ההוגן של נגזרים המשמשים לגידור תזרימי מזומנים, בגין החלק המגדר האפקטיבי, נזקפים דרך רווח כולל אחר ישירות לקרן גידור. בגין החלק שאינו אפקטיבי, נזקפים השינויים בשווי ההוגן לרווח והפסד. הסכום שנצבר בקרן גידור נזקף לדוח רווח והפסד לכשהפריט המגודר נמכר או יוצא מרשות הקבוצה, ומוצג באותו הסעיף בדוח רווח והפסד בו נמצא הפריט המגודר.

אם המכשיר המגדר אינו עונה עוד לקריטריונים לגידור חשבונאי, או שהוא פוקע או נמכר, מבוטל או ממומש, אזי נפסק הטיפול לפי חשבונאות גידור מאותו מועד ואילך. הרווח או ההפסד שנצבר קודם לכן בקרן גידור דרך רווח כולל אחר, נשאר בקרן עד אשר תתקיים העסקה החזויה או עד אשר העסקה החזויה אינה צפויה עוד להתקיים. הסכום שנצבר בקרן הגידור מועבר לרווח והפסד בתקופה שבה משפיע הסעיף המגודר על רווח והפסד.

גידור כלכלי

חשבונאות גידור אינה מיושמת לגבי מכשירים נגזרים המשמשים לגידור כלכלי של נכסים והתחייבויות פיננסיים הנקובים במטבע חוץ או צמודים למדד המחירים לצרכן. השינויים בשווי ההוגן של נגזרים אלה נזקפים לדוח רווח והפסד, כהכנסות או הוצאות מיזמן.

4. נכסים והתחייבויות צמודי מדד שאינם נמדדים לפי שווי הוגן

ערכם של נכסים והתחייבויות פיננסיים צמודי מדד, שאינם נמדדים לפי שווי הוגן, משוערך בכל תקופה בהתאם לשיעור עליית או ירידת המדד בפועל.

ד. רכוש קבוע

פריטי רכוש קבוע נמדדים לפי העלות בניכוי פחת שנצבר והפסדים מצטברים מירידת ערך. העלות כוללת הוצאות הניתנות לייחוס במישורין לרכישת הנכס.

עלות נכסים שהוקמו באופן עצמי כוללת את עלות החומרים ושכר עבודה ישיר, וכן כל עלות נוספת שניתן לייחס במישורין להבאת הנכס למיקום ולמצב הדרושים לכך שהוא יוכל לפעול באופן שהתכוונה ההנהלה, וכן אומדן עלויות פירוק ופינוי הפריטים ושיקום האתר בו ממוקם הפריט (כאשר קיימת מחויבות לפירוק ופינוי או שיקום האתר). עלות תוכנה שנרכשה, המהווה חלק בלתי נפרד מתפעול הציוד הקשור, מוכרת כחלק מעלות ציוד זה.

רשתות התקשורת מורכבות ממספר רכיבים משמעותיים בעלי אורך חיים שונה. רכיבים אלו מטופלים בנפרד, כאשר כל רכיב מופחת על פני אורך החיים השימושיים החזוי שלו.

שינויים במחויבות לפירוק ופינוי פריטים ושיקום האתר בו הם ממוקמים, למעט שינויים הנובעים מחלוף הזמן, מתווספים או מנוכים מעלות הנכס בתקופה בה מתרחשים. הסכום שמנוכה מעלות הנכס אינו עולה על ערכו בספרים והיתרה, אם קיימת, מוכרת בדוח רווח והפסד.

ביאור 3 - מדיניות חשבונאית (המשך)

ד. רכוש קבוע (המשך)

רווח או הפסד מגריעת פריט רכוש קבוע נקבע באמצעות השוואת התמורה נטו מגריעת הרכוש הקבוע לערכו בספרים, ומוכר בנטו בסעיף "הוצאות אחרות, נטו" בדוח רווח והפסד.

עלות החלפת חלק מפריט רכוש קבוע ועלויות עוקבות אחרות מוכרות כחלק מהערך בספרים של אותו פריט אם צפוי כי ההטבה הכלכלית העתידית הגלומה בחלק שהוחלף תזרום אל הקבוצה ואם עלותו ניתנת למדידה באופן מהימן. הערך בספרים של החלק שהוחלף נגרע. עלויות תחזוקה שוטפות של פריטי רכוש קבוע נזקפות לרווח והפסד עם התהוותן.

פחת הוא הקצאה שיטתית של הסכום בר-פחת של נכס על פני אורך חייו השימושיים החזוי. נכס מופחת כאשר הוא זמין לשימוש, דהיינו, כאשר הוא הגיע למיקום ולמצב הדרושים על מנת שיוכל לפעול באופן שהתכונה הנהלה.

פחת נזקף לדוח רווח והפסד לפי שיטת הקו הישר על פני אומדן אורך החיים השימושי של כל חלק מפריטי הרכוש הקבוע, מאחר ושיטה זו משקפת את תבנית הצריכה החזויה של ההטבות הכלליות העתידיות הגלומות בנכס בצורה הטובה ביותר. שיעורי הפחת לתקופה השוטפת ולתקופות השוואה הינם כדלקמן:

%	
5-25	רשת התקשורת
15-25	בקרת הרשת וציוד בדיקה
15-33	כלי רכב
15-33	מחשבים וציוד חומרה
6-33	ריהוט וציוד תקשורת נייחת

שיפורים במושכר מופחתים על פני הקצר מבין תקופת השכירות לבין אורך החיים השימושיים.

האומדנים בדבר שיטת הפחת ואורך החיים השימושיים נבחנים מחדש לפחות בכל סוף שנת דיווח ומותאמים בעת הצורך.

ה. זכויות שימוש בקווי תקשורת

הקבוצה מיישמת את IFRIC 4 - "קביעה האם הסדר כולל חכירה", אשר מגדיר קריטריונים לקביעה בתחילת ההסדר, האם זכות לשימוש בנכס מהווה הסדר חכירה.

בהתאם ל- IFRIC 4, כאמור לעיל, עסקאות לרכישת זכות שימוש בלתי הדירה בקיבולת כבלים תת ימיים מטופלות כעסקאות קבלת שירות. הסכום ששולם בגין זכויות השימוש בקווי תקשורת מוכר כהוצאה מראש ומופחת בקו ישר על פני התקופה הנקובה בהסכם, לרבות תקופת האופציה אשר מהווים את אומדן אורך החיים השימושיים של אותן קיבולות.

ו. נכסים בלתי מוחשיים ואחרים

מוניטין שנוצר כתוצאה מרכישה של חברות בנות, מוצג במסגרת נכסים בלתי מוחשיים. בתקופות עוקבות מוניטין נמדד לפי עלות בניכוי הפסדים מירידת ערך שנצברו.

עלויות פיתוח ישירות הנובעות מפיתוח תוכנת מערכת מידע לשימוש עצמי, ועלויות שכר עבודה לעובדים העוסקים בפיתוח תוכנות במהלך שלב הפיתוח, מהוונות ומוכרות כנכס בלתי מוחשי. בתקופות עוקבות, עלויות פיתוח שהווננו נמדדות לפי עלות בניכוי הפחתות, החל מהמועד בו הנכס מוכן לשימוש, והפסדים מירידת ערך שנצברו.

עלויות תוספתיות של השגת חוזה עם לקוח מהוונות לנכס, החל מיום 1 בינואר 2017 בעקבות אימוץ IFRS 15, כאשר צפוי כי הקבוצה תשיב עלויות אלו. עלויות להשגת חוזה שהיו מתהוות ללא קשר אם החוזה הושג מוכרות כהוצאה בעת התהוותן. עלויות שהתהוו לקיום חוזה עם לקוח, מוכרות כנכס כאשר הן: מתייחסות במישרין לחוזה שהקבוצה יכולה לזהות באופן ספציפי; הן מייצרות או משפרות את משאבי הקבוצה שישמשו לקיום מחויבות ביצוע בעתיד; וכן צפוי שהעלויות יושבו. בכל מקרה אחר, עלויות כאמור מוכרות כהוצאה בעת התהוותן.

בהתאם לכך, תמריצים ועמלות תוספתיים המשולמים לעובדי הקבוצה ולמשווקים בגין השגת חוזים עם לקוחות, מוכרים כנכס בלתי מוחשי. בתקופות עוקבות עלויות השגת חוזה נמדדות לפי עלות בניכוי הפחתות בהתאם לתקופת השירות הצפויה בגין חוזים אלו והפסדים מירידת ערך שנצברו.

ביאור 3 - מדיניות חשבונאית (המשך)

1. נכסים בלתי מוחשיים ואחרים (המשך)

קשרי לקוחות שנוצרו כתוצאה מרכישה של חברות בנות, הינם בעלי אורך חיים מוגדר והם מופחתים על פי קצב ההטבות הצפויות מנכסים אלו בכל תקופה.

נכסים בלתי מוחשיים אחרים - עלויות בגין רישיונות ותדרים, תוכנות ומערכות מידע, מוצגים על בסיס עלות, בניכוי הפחתה שנצברה ובניכוי הפסדים מירידת ערך, וכוללים עלויות ישירות הנדרשות להבאת הנכסים לכלל הפעלה. בתקופות עוקבות נכסים בלתי מוחשיים אלה נמדדים לפי עלות בניכוי הפחתות.

עלויות עוקבות מוכרות כנכס בלתי מוחשי אך ורק כאשר הן מגדילות את ההטבה הכלכלית העתידית הגלומה בנכס בגינו הן הוצאו. יתר העלויות נזקפות לרווח והפסד עם התהוותן.

הפחתה היא הקצאה שיטתית של הסכום בר-פחת של נכס בלתי מוחשי על פני אורך חייו השימושיים. הפחתה נזקפת לדוח רווח והפסד לפי שיטת הקו הישר, למעט ביחס לקשרי לקוחות כאמור לעיל (עד לשנת 2019).

שיעורי ההפחתה לתקופה השוטפת ולתקופות ההשוואה הינם כדלקמן:

%	
4-7 (בעיקר 4)	רישיונות ותדרים
25	מערכות מידע
15-25	תוכנות
33-50	עלויות השגת חוזה

למוניטין יש אורך חיים בלתי מוגדר והוא אינו מופחת באופן שיטתי אך נבחנת לגביו ירידת ערך לפחות אחת לשנה.

האומדנים בדבר שיטת ההפחתה ואורך החיים השימושיים נבחנים מחדש לפחות בכל סוף שנה ומותאמים בעת הצורך. הקבוצה בוחנת את אומדן אורך החיים השימושי של נכס בלתי מוחשי שאינו מופחת לפחות אחת לשנה על מנת לקבוע האם האירועים והנסיבות ממשיכים לתמוך בקביעה כי לנכס הבלתי מוחשי אורך חיים בלתי מוגדר.

2. מלאי

מלאי הטלפונים הסלולאריים, האביזרים הנלווים וחלקי החילוף, נמדד כנמוך מבין העלות וערך המימוש נטו. העלות נקבעת לפי שיטת הממוצע הנע. ערך המימוש נטו הוא אומדן מחיר המכירה במהלך העסקים הרגיל, בניכוי אומדן העלויות הדרושות להשלמה ולביצוע המכירה. הקבוצה בוחנת מדי תקופה את מצב המלאי וגילו ומבצעת הפרשות לירידת ערך מלאי בהתאם לצורך.

3. ירידת ערך

1. נכסים פיננסיים שאינם נגזרים

ירידת ערך של נכס פיננסי שאינו מוצג בשווי הוגן דרך רווח והפסד נבחנת כאשר קיימת ראייה אובייקטיבית לכך שאירוע הפסד התרחש לאחר מועד ההכרה לראשונה בנכס ואירוע הפסד זה השפיע באופן שלילי על אומדן תזרימי המזומנים העתידיים של הנכס הניתן לאמידה מהימנה.

הפסד מירידת ערך של נכס פיננסי, הנמדד לפי עלות מופחתת, מחושב כהפרש בין ערך הנכס בספרים לבין הערך הנוכחי של אומדן תזרימי המזומנים העתידיים, מהוון בשיעור הריבית האפקטיבית המקורית של הנכס. כל ירידות הערך נזקפות לרווח והפסד.

הפסד מירידת ערך מבוטל כאשר ניתן ליחסו באופן אובייקטיבי לאירוע שהתרחש לאחר ההכרה בהפסד מירידת הערך. ביטול הפסד מירידת ערך בגין נכסים פיננסיים הנמדדים לפי עלות מופחתת, נזקף לרווח והפסד.

ביאור 3 - מדיניות חשבונאית (המשך)

ח. ירידת ערך (המשך)

2. רכוש קבוע ונכסים בלתי מוחשיים ואחרים

הערך בספרים של רכוש קבוע ונכסים בלתי מוחשיים בעלי אורך חיים מוגדר, נבדק בכל מועד דיווח כדי לקבוע האם קיימים סימנים המצביעים על ירידת ערך. באם קיימים סימנים, כאמור, מחושב אומדן סכום בר ההשבה של הנכס.

בכל תקופת דיווח הקבוצה בוחנת האם הערך בספרים של עלויות חוזה שהווננו עולה על יתרת הסכום של התמורה שהחברה מצפה לקבל בתמורה לשירותים אליהם מתייחס הנכס, בניכוי העלויות המתייחסות במישרין להספקת שירותים אלה אשר לא הוכרו כהוצאות, ובמידת הצורך, מוכר הפסד מירידת ערך ברווח או הפסד.

אחת לשנה בתאריך קבוע, עבור כל יחידה מניבת מזומנים הכוללת מוניטין, או נכסים בלתי מוחשיים בעלי אורך חיים בלתי מוגדר, מבצעת הקבוצה הערכה של הסכום בר ההשבה, או באופן תכוף יותר אם קיימים סימנים לירידת ערך.

למטרת בחינת ירידת ערך, נכסים אשר אינם ניתנים לבחינה פרטנית מקובצים יחד לקבוצת הנכסים הקטנה ביותר אשר מניבה תזרימי מזומנים משימוש מתמשך, אשר הינם בלתי תלויים בעיקרם בנכסים ובקבוצות אחרות ("יחידה מניבת מזומנים").

הסכום בר ההשבה של נכס או של יחידה מניבת מזומנים הינו הגבוה מבין שווי שימוש לבין שווי הוגן, בניכוי הוצאות מכירה. בקביעת שווי השימוש, מהוונת הקבוצה את תזרימי המזומנים העתידיים החזויים לפי שיעור היוון לפני מיסים, המשקף את הערכות השוק לגבי ערך הזמן של הכסף והסיכונים הספציפיים המתייחסים לנכס או ליחידה מניבת המזומנים, בגינם לא הותאמו תזרימי המזומנים העתידיים הצפויים לנבוע מהנכס או מהיחידה מניבת המזומנים.

יחידות מניבות מזומנים אליהן הוקצה מוניטין מקבוצות כך שהרמה בה נבחנת ירידת ערך של מוניטין משקפת את הרמה הנמוכה ביותר בה המוניטין נתון למעקב למטרת דיווח פנימי. הקבוצה עוקבת אחר המוניטין ברמת מגזרי פעילות.

הפסד מירידת ערך מוכר כאשר הערך בספרים של הנכס או של יחידה מניבת מזומנים עולה על הסכום בר ההשבה, ונזקף לרווח והפסד. הפסדים מירידת ערך שהוכרו לגבי יחידות מניבות מזומנים, מוקצים תחילה להפחתת הערך בספרים של מוניטין שיוחס ליחידות אלה ולאחר מכן להפחתת הערך בספרים של הנכסים האחרים ביחידה מניבת המזומנים, באופן יחסי.

ט. הטבות לעובדים

1. הטבות לאחר סיום העסקה

חלק מהמחויבות של הקבוצה להטבות לאחר סיום העסקה מכוסות על ידי תכנית הפקדה מוגדרת הממומנת על ידי הפקדות לחברות ביטוח או לקרנות המנוהלות בידי נאמן. תכנית להפקדה מוגדרת הינה תכנית לאחר סיום העסקה שלפיה הקבוצה משלמת תשלומים קבועים לישות נפרדת מבלי שתהיה לה מחויבות משפטית או משתמעת לשלם תשלומים נוספים. מחויבות הקבוצה להפקיד בתכנית הפקדה מוגדרת נזקפת כהוצאה לרווח והפסד בתקופות שבמהלכן סיפקו העובדים שירותים. כמו כן, קיימת בקבוצה התחייבות נטו בגין תכנית הטבה מוגדרת. תכנית להטבה מוגדרת הינה תכנית הטבה לאחר סיום העסקה שאינה תכנית להפקדה מוגדרת. הטבה זו מוצגת לפי ערך נוכחי בניכוי השווי ההוגן של נכסי התוכנית ומחושבת על בסיס אקטוארי, הכרוך, בין היתר, בקביעת הנחות לגבי שיעורי היוון, תשואה על נכסי התוכנית, שיעור עליית השכר ושיעורי תחלופת עובדים. קיימת אי ודאות משמעותית בגין אומדנים אלו בשל היות התוכניות לזמן ארוך. למידע נוסף, ראה ביאור 18.

הקבוצה זוקפת מיידית, דרך רווח כולל אחר ישירות לעודפים, את כל רווחי והפסדי המדידות מחדש הנובעים מתכנית הטבה מוגדרת. עלויות ריבית והכנסות ריבית על נכסי התכנית שנזקפו לרווח והפסד, מוצגות בסעיפי הכנסות והוצאות מימן בהתאמה.

2. הטבות בגין פיטורין

הטבות בגין פיטורין מוכרות כהוצאה כאשר הקבוצה התחייבה באופן מובהק, ללא אפשרות ממשית לביטול, לפיטורי עובדים, לפני הגיעם למועד הפרישה המקובל על פי תכנית פורמלית מפורטת, או לספק הטבות בגין פיטורין כתוצאה מהצעה שנעשתה בכדי לעודד פרישה מרצון. הטבות הניתנות לעובדים בפרישה מרצון נזקפות כהוצאה כאשר הקבוצה הציעה לעובדים תכנית המעודדת פרישה מרצון, וכאשר צפוי שהצעה תתקבל וניתן לאמוד באופן מהימן את מספר הנענים להצעה.

3. הטבות עובד לזמן קצר

מחויבות בגין הטבות לעובדים לזמן קצר נמדדות על בסיס לא מהוון, וההוצאה נזקפת בעת שניתן השירות המתייחס. הפרשה בגין הטבות לעובדים לזמן קצר מוכרת כאשר לקבוצה יש מחויבות נוכחית משפטית או משתמעת לשלם את הסכום האמור בגין שירות שניתן על ידי העובד בעבר וניתן לאמוד באופן מהימן את הסכום.

סיווג הטבות לעובדים, לצרכי מדידה, כהטבות לטווח קצר או כהטבות אחרות לטווח ארוך נקבע בהתאם לתחזית הקבוצה לסילוק המלא של ההטבות.

ביאור 3 - מדיניות חשבונאית (המשך)

ט. הטבות לעובדים (המשך)

4. תשלומים מבוססי מניות

השווי ההוגן במועד ההענקה של אופציות לעובדים נזקף כהוצאת שכר ונלוות במקביל לגידול בעודפים, על פני התקופה בה מושגת זכאות בלתי מותנית של העובדים לאופציות.

השווי ההוגן נמדד תוך שימוש במודל בלק ושולס. משך החיים הצפוי של האופציות לפי המודל הותאם, בהתאם להערכות ההנהלה, כדי להביא בחשבון הגבלות מימוש ושיקולים התנהגותיים.

י. הפרשות

הפרשה מוכרת כאשר לקבוצה יש מחויבות נוכחית, משפטית או משתמעת, כתוצאה מאירוע שהתרחש בעבר, הניתנת לאמידה בצורה מהימנה וכאשר צפוי כי יידרש תזרים שלילי של הטבות כלכליות לסילוק המחויבות. ההפרשות נמדדות על פי אומדן ההנהלה הטוב ביותר באשר להוצאות הדרושות לסילוק ההתחייבות לתאריך הדיווח.

הפרשה בגין תביעות משפטיות מוכרת כאשר לקבוצה קיימת מחויבות משפטית בהווה או מחויבות משתמעת כתוצאה מאירוע שהתרחש בעבר, יותר סביר מאשר לא (more likely than not) כי הקבוצה תידרש למשאביה הכלכליים לסילוק המחויבות וניתן לאמוד אותה באופן מהימן.

יא. הכנסות

מדיניות חשבונאית שיושמה בתקופות שקדמו ליום 1 בינואר 2017

הכנסות הנובעות ממתן שירותים, הכוללות שירותי סלולר, שירותי אינטרנט, שיחות בינלאומיות, שיחות ניחות מקומיות, קישורי גומלין, שירותי נדידה, שירותי תוכן וערך מוסף, שירותי תמסורת ושירותי טלוויזיה על גבי האינטרנט, נרשמות עם מתן השירותים באופן יחסי לשלב השלמת העסקה, כאשר כל הקריטריונים להכרה בהכנסה התקיימו.

עסקת מכירת ציוד קצה כרוכה, בדרך כלל, בעסקה למכירת שירותים. על פי רוב, מכירת הציוד ללקוח נעשית ללא התחייבות חוזית של הלקוח לצורך שירותים בסכום מינימאלי לתקופה מוגדרת מראש. כפועל יוצא, הקבוצה מתייחסת לעסקת הציוד כעסקה נפרדת ומכירה בהכנסות מציוד בהתאם לשווי העסקה במועד מסירת הציוד ללקוח. ההכנסות משירותים מוכרות ונרשמות עם מתן השירותים.

כאשר ללקוח יש התחייבות חוזית מול הקבוצה לצורך שירותים בסכום מינימאלי לתקופה מוגדרת מראש, החוזה מאופיין כעסקה מרובת רכיבים, ההכנסה מציוד נרשמת בסכום שאינו גבוה משווי ההוגן של הציוד האמור שאינו תלוי במסירת רכיבים נוספים (כגון שירותים) ומוכרת כהכנסות מציוד בעת המסירה ללקוח וכאשר מתקיימים התנאים להכרה בהכנסה. הקבוצה קובעת את השווי ההוגן של כל רכיב על בסיס המחיר בו הוא נמכר באופן נפרד במהלך העסקים הרגיל, לרבות הנחות, במידה וניתנות.

הקבוצה מציעה שירותים אחרים, כגון אחריות מורחבת על ציוד, הניתנים עבור תשלום חודשי ונמכרים בנפרד או בחבילה כחלק מתוכנית תעריפים. הכנסות משירותים אלו מוכרות על פני תקופת השירות.

ההכנסה ממכירת ציוד במהלך העסקים הרגיל נמדדת על פי השווי ההוגן של התמורה שנתקבלה או העומדת להתקבל, בניכוי החזרות והנחות, הנחות מסחריות והנחות כמות. הכנסות הנובעות מהסדרי אשראי לזמן ארוך נרשמות על בסיס הערך הנוכחי של תזרימי המזומנים העתידיים, מהוונים לפי שיעורי ריבית השוק במועד העסקה. ההפרש בין הסכום המקורי של האשראי לבין ערכו הנוכחי, כאמור לעיל, נפרס על פני תקופת האשראי ונרשם כהכנסות ריבית לאורך תקופת האשראי.

תקבולים ממכירת כרטיסי חיוג נרשמים תחילה כהכנסה נדחית ונזקפים כהכנסה בהתאם לשימוש בהם או כאשר פג תקופם.

כאשר הקבוצה פועלת כסוכנת או כמתווכת מבלי לשאת בסיכונים ובהטבות הנגזרים מהעסקה, ההכנסות מוצגות על בסיס נטו (כרווח או עמלה). לעומת זאת, כאשר הקבוצה פועלת כספק עיקרי ונושאת בסיכונים ובתשואות הנגזרים מהעסקה, ההכנסות מוצגות על בסיס ברוטו, תוך אבחנה בין ההכנסה וההוצאה בגינה.

ביאור 3 - מדיניות חשבונאית (המשך)

יא. הכנסות (המשך)

מדיניות חשבונאית המיושמת החל מיום 1 בינואר 2017 בעקבות אימוץ IFRS 15

הקבוצה מכירה בהכנסות כאשר השליטה על הסחורה או השירות שהובטחו מועברת ללקוח. ההכנסה נמדדת לפי סכום התמורה לו הקבוצה מצפה להיות זכאית בתמורה להעברת סחורות או שירותים שהובטחו ללקוח, מלבד סכומים שנגבו לטובת צדדים שלישיים.

זיהוי חוזה

הקבוצה מטפלת בחוזה עם לקוח רק כאשר מתקיימים כל התנאים הבאים:

- (א) הצדדים לחוזה אישרו את החוזה (בכתב, בעל פה או בהתאם לפרקטיקות עסקיות נהוגות אחרות) והם מחויבים לקיים את המחויבויות המיוחסות להם;
- (ב) הקבוצה יכולה לזהות את הזכויות של כל צד לגבי המוצרים או השירותים אשר יועברו;
- (ג) הקבוצה יכולה לזהות את תנאי התשלום עבור הסחורות או השירותים אשר יועברו;
- (ד) לחוזה יש מהות מסחרית (כלומר הסיכון, העיתוי והסכום של תזרימי המזומנים העתידיים של הישות חזויים להשתנות כתוצאה מהחוזה); וכן
- (ה) צפוי שהקבוצה תגבה את התמורה לה היא זכאית עבור הסחורות או השירותים אשר יועברו ללקוח.

לצורך העמידה בסעיף (ה) הקבוצה בוחנת, בין היתר, את אחוז המקדמות שהתקבלו ואופן פריסת התשלומים בחוזה, ניסיון קודם עם הלקוח ומצבו וקיומם של בטחונות מספיקים.

כאשר חוזה עם לקוח אינו מקיים את הקריטריונים האמורים, תמורה שהתקבלה מהלקוח מוכרת כהתחייבות עד שהקריטריונים מתקיימים או כאשר מתרחש אחד מהאירועים הבאים: לקבוצה לא נותרו מחויבויות להעביר סחורות או שירותים ללקוח וכל התמורה שהובטחה על ידי הלקוח התקבלה והיא לא ניתנת להחזרה; או החוזה בוטל והתמורה שהתקבלה מהלקוח אינה ניתנת להחזרה.

זיהוי מחויבויות ביצוע

הקבוצה מעריכה במועד ההתקשרות בחוזה את הסחורות או השירותים שהובטחו במסגרת חוזה עם לקוח ומזהה כמחויבות ביצוע כל הבטחה להעביר ללקוח אחד מהשניים הבאים:

- (א) סחורה או שירות (או חבילה של סחורות או שירותים) שהם נפרדים; או
- (ב) סדרה של סחורות או שירותים נפרדים שהם למעשה זהים ויש להם אותו דפוס העברה ללקוח.

הקבוצה מזהה סחורות או שירותים שהובטחו ללקוח כנפרדים כאשר הלקוח יכול להפיק תועלת מהסחורה או השירות בעצמו או ביחד עם משאבים אחרים הניתנים להשגה בנקל ללקוח וכן ההבטחה של הקבוצה להעביר את הסחורה או השירות ללקוח ניתנת לזיהוי בנפרד מהבטחות אחרות בחוזה. על מנת לבחון האם הבטחה להעביר סחורה או שירות ניתנת לזיהוי בנפרד, הקבוצה בוחנת האם מסופק שירות משמעותי של שילוב הסחורה או השירות עם סחורות או שירותים אחרים שהובטחו בחוזה לתוצר משולב עבורו הלקוח התקשר בחוזה.

אופציה לרכישת סחורות או שירותים נוספים

אופציה המקנה ללקוח זכות לרכוש סחורות או שירותים נוספים מהווה מחויבות ביצוע נפרדת בחוזה רק אם האופציה מספקת זכות מהותית ללקוח שלא היה מקבל אילולא היה מתקשר בחוזה המקורי.

קביעת מחיר העסקה

מחיר העסקה הוא סכום התמורה לו הקבוצה מצפה להיות זכאית בתמורה להעברת סחורות או שירותים שהובטחו ללקוח, מלבד סכומים שנגבו לטובת צדדים שלישיים. בעת קביעת מחיר העסקה הקבוצה מביאה בחשבון את ההשפעות של תמורה משתנה וקיומו של רכיב מימון משמעותי בחוזה.

תמורה משתנה

מחיר העסקה כולל סכומים קבועים וסכומים שעשויים להשתנות כתוצאה מהנחות, החזרים, זיכויים, ויתורים על מחיר, תמריצים, בונוסים בגין ביצועים, קנסות, תביעות ומחלוקות וכן שינויים בחוזה שהתמורה בגינם טרם הוסכמה על ידי הצדדים. הקבוצה כוללת במחיר העסקה את סכום התמורה המשתנה, או את חלקו, רק כאשר צפוי ברמה גבוהה כי ביטול משמעותי של סכום ההכנסות המצטברות שהוכרו לא יתרחש כאשר אי הודאות הקשורה לתמורה המשתנה תתברר לאחר מכן. בסוף כל תקופת דיווח, מעדכנת הקבוצה במידת הצורך את אומדן סכום התמורה המשתנה שנכלל בתמורת העסקה.

ביאור 3 - מדיניות חשבונאית (המשך)

יא. הכנסות (המשך)

הקצאת מחיר העסקה למחויבויות ביצוע

בעסקה מרובת מחויבויות ביצוע, תמורת העסקה מוקצית בין הרכיבים בעסקה לפי יחס מחירי המכירה הנפרדים שלהם.

קיומו של רכיב מימון משמעותי

לצורך מדידת מחיר העסקה, הקבוצה מתאימה את סכום התמורה שהובטחה בגין השפעות של הזמן על ערך הכסף אם עיתוי התשלומים שהוסכם בין הצדדים מספק ללקוח או לקבוצה הטבה משמעותית של מימון. במקרים אלו החוזה מכיל רכיב מימון משמעותי. בהערכה אם חוזה מכיל רכיב מימון משמעותי, בוחנת הקבוצה, בין היתר, את אורך הזמן החזוי בין המועד בו הקבוצה מעבירה את הסחורות או השירותים שהובטחו ללקוח לבין המועד בו הלקוח משלם עבור סחורות או שירותים אלה, וכן ההפרש, אם קיים, בין הסכום של התמורה שהובטחה לבין מחיר המכירה במזומן של הסחורות או השירותים שהובטחו.

כאשר קיים רכיב מימון משמעותי בחוזה, הקבוצה מכירה בסכום התמורה תוך שימוש בשיעור ההיוון שישתקף בעסקת מימון נפרדת בינה לבין הלקוח במועד ההתקשרות. רכיב המימון מוכר כהכנסות או כהוצאות ריבית במהלך התקופה המחושבות בהתאם לשיטת הריבית האפקטיבית.

במקרים בהם הפער בין מועד קבלת התשלום לבין מועד העברת הסחורה או השירות ללקוח הינו שנה או פחות, הקבוצה מיישמת את ההקלה הפרקטית הקבועה בתקן ואינה מפרידה רכיב מימון משמעותי.

קיום מחויבויות ביצוע

הכנסות מוכרות כאשר הקבוצה מקיימת מחויבות ביצוע על ידי העברת שליטה על סחורה או שירות שהובטחו ללקוח.

אחריות

לצורך ההערכה האם אחריות מספקת ללקוח שירות נפרד ולכן מהווה מחויבות ביצוע נפרדת, הקבוצה בוחנת, בין היתר, את המאפיינים הבאים: האם ללקוח יש את האפשרות לרכוש אחריות בנפרד; האם האחריות נדרשת על פי חוק; אורכה של תקופת כיסוי האחריות והמהות של הפעולות שהקבוצה מבטיחה לבצע.

ספק עיקרי או סוכן

כאשר צד אחר מעורב בהספקת סחורות או שירותים ללקוח, הקבוצה בוחנת האם מהות ההבטחה שלה היא מחויבות ביצוע לספק את הסחורות או השירותים המוגדרים בעצמה, כלומר הקבוצה היא ספק עיקרי ולכן מכירה בהכנסות בסכום ברוטו של התמורה, או מחויבות לארגן שצד אחר יספק סחורות או שירותים אלה, כלומר הקבוצה היא סוכן ולכן מכירה בהכנסה בסכום העמלה נטו.

הקבוצה היא ספק עיקרי כאשר היא שולטת על הסחורה או השירות שהובטחו טרם העברתם ללקוח. אינדיקטורים לכך שהקבוצה שולטת על הסחורה או השירות לפני העברתם ללקוח כוללים, בין היתר, את הבאים: הקבוצה היא האחראית העיקרית לקיום ההבטחות בחוזה; לקבוצה יש סיכון מלאי לפני שהסחורה או השירות הועברו ללקוח; וכן, לקבוצה יש שיקול דעת בקביעת מחירים עבור הסחורה או השירות.

יב. עלות המכירות

עלות המכירות כוללת בעיקר עלויות רכישת ציוד קצה, משכורות והוצאות נלוות, עלויות שירותי ערך מוסף, הוצאות תמלוגים, דמי רישוי שוטפים, הוצאות על קישורי גומלין ונדידה, עלויות שכירות של אתרי תא, הוצאות פחת והפחתות והוצאות תחזוקה הקשורות באופן ישיר למתן השירותים.

הקבוצה מכירה בהנחות המתקבלות מספקיה כהקטנת עלות הקניות. לפיכך, חלק מההנחות, בגין אותו חלק מהקניות המתווסף למלאי הסגירה, מיוחס למלאי, וחלק הנותר של ההנחות מקטין את עלות המכירות.

יג. הוצאות פרסום

הוצאות פרסום מוכרות כהוצאה עם התהוותן.

יד. תשלומי חכירה

תשלומים שבוצעו במסגרת חכירות תפעוליות נזקפים לדוח רווח והפסד לפי שיטת הקו הישר על פני תקופת החכירה.

ביאור 3 - מדיניות חשבונאית (המשך)

טו. הכנסות והוצאות מימון

הכנסות מימון כוללות הכנסות ריבית בגין עסקאות מכירה בתשלומים וסכומים שהושקעו, שינוי בשווי ההוגן של מכשירים פיננסיים שנמדדים לפי שווי הוגן דרך רווח והפסד ורווחים בגין הפרשי שער. הכנסות ריבית מוכרות בדוח רווח והפסד עם צבירתן באמצעות שיטת הריבית האפקטיבית.

הוצאות מימון כוללות הוצאות ריבית, הוצאות הצמדה, הוצאות הפחתת ניכיון, שינוי בשווי ההוגן של מכשירים פיננסיים הנמדדים בשווי הוגן דרך רווח והפסד, הפסדים בגין הפרשי שער ושינויים בהיוון הפרשות הנובעות מחלוף הזמן. עלויות האשראי נזקפות לדוח רווח והפסד לפי שיטת הריבית האפקטיבית.

שינויים בשווי ההוגן של נכסים פיננסיים שנמדדים לפי שווי הוגן דרך רווח והפסד כוללים גם הכנסות מדיבידנדים וריביות.

רווחים והפסדים מהפרשי שער ובגין שינויים בשווי ההוגן של מכשירים פיננסיים שנמדדים לפי שווי הוגן דרך רווח והפסד, מוצגים בנטו, כהכנסות מימון או כהוצאות מימון.

בדוחות על תזרימי מזומנים, תשלומים בגין מכשירים נגזרים אשר משמשים לגידור כלכלי של התחייבויות פיננסיות בעלות אופי מימוני, מוצגים בנטו במסגרת פעילות המימון.

תשלומים בגין מכשירים נגזרים אשר משמשים לגידור כלכלי של רכישות מכשירים סלולאריים, ציוד רשת ופעילות שירותי נדידה בינלאומית, ושינויים בשווי ההוגן של מכשירים נגזרים אלו, מוצגים בנטו במסגרת הפעילות השוטפת.

ריבית שהתקבלה ודיבידנדים שהתקבלו מוצגים במסגרת תזרימי מזומנים מפעילות השקעה.

ריביות ששולמו ודיבידנדים ששולמו מוצגים במסגרת תזרימי מזומנים מפעילות מימון.

טז. מיסים על ההכנסה

מיסים על ההכנסה כוללים מיסים שוטפים ונדחים. מיסים שוטפים ונדחים נזקפים לדוח רווח והפסד, אלא אם המס נובע מצירוף עסקים, או נזקפים ישירות להון או לרווח כולל אחר במידה ונובעים מפריטים אשר מוכרים ישירות בהון או ברווח כולל אחר.

המס השוטף הינו סכום המס הצפוי להשתלם על ההכנסה החייבת במס לשנה, כשהוא מחושב לפי שיעורי המס החלים לפי החוקים שנחקקו או נחקקו למעשה למועד הדיווח, והכולל שינויים בתשלומי המס המתייחסים לשנים קודמות.

הקבוצה מקזזת נכסי והתחייבויות מיסים שוטפים במידה וקיימת זכות משפטית ניתנת לאכיפה לקיזוז נכסי והתחייבויות מיסים שוטפים, וכן קיימת כוונה לסלק נכסי והתחייבויות מיסים שוטפים על בסיס נטו או שנכסי והתחייבויות המיסים השוטפים מיושבים בו זמנית.

ההכרה במיסים נדחים הינה בהתייחס להפרשים זמניים בין הערך בספרים של נכסים והתחייבויות לצורך דיווח כספי לבין ערכם לצרכי מיסים. המיסים הנדחים נמדדים לפי שיעורי המס הצפויים לחול על הפרשים הזמניים במועד בו ימומשו, בהתבסס על החוקים שנחקקו נכון לתאריך הדיווח.

הקבוצה מקזזת נכסי והתחייבויות מיסים נדחים במידה וקיימת זכות משפטית ניתנת לאכיפה לקיזוז נכסי והתחייבויות מיסים שוטפים, והם מיוחסים לאותה הכנסה חייבת במס הממוסה על ידי אותה רשות מס באותה קבוצה נישומה, או בחברות שונות, אשר כבוננות לסלק נכסי והתחייבויות מיסים שוטפים על בסיס נטו או שנכסי והתחייבויות המיסים השוטפים מיושבים בו-זמנית.

נכס מס נדחה מוכר בספרים כאשר צפוי שבעתיד תהיה הכנסה חייבת, שכנגדה ניתן יהיה לנצל את הפרשים הזמניים. נכסי המיסים הנדחים נבדקים בכל תאריך דיווח, ובמידה ולא צפוי כי הטבות המס המתייחסות יתמשו, הם מופחתים.

הפרשה בגין עמדות מס לא וודאיות, לרבות הוצאות מס וריבית נוספות, מוכרת כאשר יותר צפוי מאשר לא כי הקבוצה תידרש למשאביה הכלכליים לסילוק המחויבות.

יז. רווח למניה

החברה מציגה נתוני רווח למניה בסיסי ומדולל לגבי הון המניות הרגילות שלה. הרווח הבסיסי למניה מחושב על ידי חלוקת הרווח או ההפסד המיוחסים לבעלי המניות הרגילות של החברה במספר הממוצע המשוקלל של המניות הרגילות שהיו במחזור במשך התקופה. הרווח המדולל למניה נקבע על ידי התאמת הרווח או ההפסד, המתייחס לבעלי המניות הרגילות והתאמת הממוצע המשוקלל של המניות הרגילות שבמחזור בגין ההשפעות של כל המניות הרגילות הפוטנציאליות המדללות, הכוללות אופציות למניות שהוענקו לעובדים.

ביאור 3 - מדיניות חשבונאית (המשך)

יח. תקנים חדשים שטרם אומצו

תקן דיווח כספי בינלאומי 9 (2014), מכשירים פיננסיים ("IFRS 9 (2014)" או "גרסה סופית של תקן 9")

IFRS 9 (2014) הינו גרסה סופית של התקן, הכוללת הוראות מעודכנות לסיווג ומדידה של מכשירים פיננסיים, וכן מודל חדש למדידת ירידת ערך של נכסים פיננסיים. הוראות אלו מתווספות לפרק בנושא חשבונאות גידור - כללי שפורסם בשנת 2013.

סיווג ומדידה של נכסים פיננסיים

בהתאם לגרסה הסופית של תקן 9, ישנן שלוש קטגוריות עיקריות למדידת נכסים פיננסיים: עלות מופחתת, שווי הוגן דרך רווח והפסד ושווי הוגן דרך רווח כולל אחר. בסיס הסיווג לגבי מכשירי חוב מתבסס על המודל העסקי של הישות לניהול נכסים פיננסיים ועל מאפייני תזרימי המזומנים החוזיים של הנכס הפיננסי. השקעה במכשירים הוניים תימדד בשווי הוגן דרך רווח והפסד (אלא אם החברה בחרה, בעת ההכרה הראשונית, להציג את השינויים בשווי ההוגן ברווח הכולל האחר). כמפורט בסעיף ג. 1 בביאור זה, הקבוצה אימצה באימוץ מוקדם החל משנת 2012 את כללי הסיווג והמדידה בהתאם לתקן 9 (2009), בקשר לנכסים פיננסיים, מבלי לאמץ באימוץ מוקדם את יתר כללי הגרסה הסופית של תקן 9, המפורטים להלן:

סיווג ומדידה של התחייבויות פיננסיות

עקרונות הסיווג והמדידה של התחייבויות פיננסיות לא השתנו ביחס לעקרונות אלו ב- IAS 39. עם זאת, התקן דורש כי השינויים בשווי ההוגן של התחייבויות פיננסיות שיועדו לשווי הוגן דרך רווח והפסד המיוחסים לשינוי בסיכון האשראי העצמי יוכרו לרווח כולל אחר.

חשבונאות גידור - כללי

בהתאם לגרסה הסופית של תקן 9, אסטרטגיות גידור נוספות אשר נעשה בהן שימוש לצורכי ניהול סיכונים עשויות להיות כשירות לחשבונאות גידור. הגרסה הסופית של תקן 9 מחליפה את מבחן ה- 125% - 80% הנוכחי לקביעת אפקטיביות הגידור, בדרישה לקשר כלכלי בין הפריט המגודר לבין המכשיר המגדר, מבלי לקבוע סף כמותי. בנוסף, הגרסה הסופית לתקן 9 מציגה מודלים חדשים המהווים חלופות לחשבונאות גידור בהתייחס לחשיפות אשראי ולחוזים מסוימים אשר אינם בתחולת הגרסה הסופית של תקן 9 וקובעת עקרונות חדשים לטיפול במכשירים מגדרים. כמו כן, הגרסה הסופית של תקן 9 קובעת דרישות גילוי חדשות.

ירידת ערך של נכסים פיננסיים

הגרסה הסופית של תקן 9 כוללת מודל חדש להכרה בהפסדי אשראי צפויים ('expected credit loss model'). עבור מרבית נכסי החוב הפיננסיים, המודל החדש מציג גישת מדידה דואלית של ירידת ערך: אם סיכון האשראי המיוחס לנכס הפיננסי לא עלה באופן משמעותי מאז ההכרה לראשונה, תירשם הפרשה להפסד בגובה הפסדי האשראי הצפויים בשל אירועי כשל אשר התרחשותם אפשרית במהלך שנים-עשר החודשים לאחר מועד הדיווח. אם סיכון האשראי עלה באופן משמעותי, במרבית המקרים ההפרשה לירידת ערך תגדל ותירשם בגובה הפסדי האשראי הצפויים על פני מלוא אורך החיים של הנכס הפיננסי.

הגרסה הסופית של תקן 9 תיושם לתקופות שנתיות המתחילות ביום 1 בינואר 2018, עם אפשרות לאימוץ מוקדם. התקן ייושם, למפרע, למעט מספר הקלות.

בכוונת הקבוצה לאמץ את התקן החל מיום 1 בינואר 2018 ללא תיקון מספרי השוואה, תוך התאמת יתרות העודפים ומרכיבים אחרים של ההון ליום 1 בינואר 2018 (מועד היישום לראשונה של התקן).

שינויים מהותיים והשפעות צפויות כתוצאה מאימוץ התקן:

1. תקן 9 כולל מודל חדש להכרה בהפסדי אשראי חזויים ('expected credit loss model') עבור נכסי החוב הפיננסיים שאינם נמדדים לפי שווי הוגן דרך רווח והפסד. המודל החדש מציג גישת מדידה דו שלבית של ירידת ערך: אם סיכון האשראי של הנכס הפיננסי לא עלה באופן משמעותי ממועד ההכרה לראשונה, ההפרשה להפסד תימדד בסכום השווה להפסדי האשראי החזויים הנובעים מאירועי כשל בנכס הפיננסי אשר התרחשותם חזויה בתוך שנים עשר חודשים לאחר מועד הדיווח. אם סיכון האשראי עלה באופן משמעותי, במרבית המקרים, ההפרשה להפסד תגדל ותימדד בסכום השווה להפסדי האשראי החזויים לאורך כל חיי הנכס הפיננסי.
2. בהתאם לתקן 9, במקרים בהם שינוי תנאים או החלפה של התחייבויות פיננסיות אינו מהותי ואינו מביא לגריעה, יש להוון את תזרימי המזומנים החדשים בשיעור הריבית האפקטיבי המקורי כאשר הפרש בין הערך הנוכחי של ההתחייבות הפיננסית בעלת התנאים החדשים לבין הערך הנוכחי של ההתחייבות הפיננסית המקורית יוכר ברווח או הפסד. כתוצאה מיישום תקן 9, הערך בספרים של אגרות חוב אשר תנאיהן שונו אשר חושבה עבורן תחת IAS 39 ריבית אפקטיבית חדשה במועד שינוי התנאים, יחושב מחדש החל ממועד שינוי התנאים תוך שימוש בריבית האפקטיבית המקורית.

כתוצאה מכך, במועד יישום התקן צפויה יתרת העודפים לקטון בסך 35-40 מיליון ש"ח.

ביאור 3 - מדיניות חשבונאית (המשך)

יח. תקנים חדשים שטרם אומצו (המשך)

תקן דיווח כספי בינלאומי 16 (IFRS 16), חכירות

התקן מחליף את תקן בינלאומי מספר 17 חכירות (IAS 17) ואת הפרשנויות הקשורות. הוראות התקן מבטלות את הדרישה הקיימת מחוכרים לסיווג החכירה כתפעולית או כמימונית. חלף זאת, לעניין חוכרים, מציג התקן החדש מודל אחד לטיפול החשבונאי בכל החכירות, לפיו על החוכר להכיר בנכס זכות שימוש ובהתחייבות בגין החכירה בדוחותיו הכספיים. עם זאת, התקן כולל שני חריגים למודל הכללי, לפיהם חוכר יכול לבחור לא ליישם את דרישות ההכרה בנכס זכות שימוש ובהתחייבות לגבי חכירות לטווח קצר של עד שנה ו/או חכירות בהן נכס הבסיס הוא בעל ערך נמוך.

בנוסף, התקן מאפשר לחוכר ליישם את הגדרת המונח חכירה באחת משתי החלופות הבאות באופן עקבי לכל החכירות: יישום רטרוספקטיבי עבור כל הסכמי החכירה, קרי ביצוע הערכה מחודשת לקיומה של חכירה עבור כל חוזה בנפרד או לחילופין יישום הקלה פרקטית המאפשרת לשמר את הערכת קיומה של חכירה בהתאם להוראות תקן חשבונאות בינלאומי 17 חכירות ופרשנות מספר 4 של הוועדה לפרשנויות של דיווח כספי בינלאומי, קביעה אם הסדר מכיל חכירה (IFRIC 4), בנוגע להסכמים הקיימים למועד היישום. כמו כן, התקן קובע דרישות גילוי חדשות ונרחבות יותר מאלו הקיימות כיום.

התקן ייושם לתקופות שנתיות המתחילות ביום 1 בינואר 2019, עם אפשרות ליישום מוקדם, ובלבד שהחברה מיישמת באימוץ מוקדם גם את IFRS 15, הכנסה מחוזים עם לקוחות.

התקן כולל חלופות שונות עבור יישום הוראות המעבר, כך שחברות יוכלו לבחור באחת מהחלופות הבאות בעת היישום לראשונה: יישום רטרוספקטיבי מלא או יישום התקן (עם אפשרות למספר הקלות מסוימות) החל מיום היישום לראשונה תוך התאמת יתרת העודפים למועד זה.

הקבוצה בוחנת את השלכות יישום התקן על הדוחות הכספיים, אך עדיין אין ביכולתה של הקבוצה לאמוד באופן מהימן את השפעות יישום התקן על הדוחות הכספיים המאוחדים. לקבוצה היקף משמעותי של הסכמי חכירה תפעולית (לפרטים ראה ביאור 29 בדבר חכירות תפעוליות) ולפיכך ליישום התקן צפויה להיות השפעה מהותית על הדוחות הכספיים המאוחדים.

פרשנות של הוועדה לפרשנויות של דיווח כספי בינלאומי 22 (IFRIC 22), עסקאות במטבע חוץ ומקדמות במט"ח

הפרשנות קובעת כי מועד העסקה לצורך קביעת שער החליפין לרישום עסקה במטבע חוץ הכוללת מקדמות יהא המועד בו החברה מכירה לראשונה בנכס/התחייבות לא כספי בגין המקדמה. כאשר ישנם מספר תשלומים או תקבולים מראש, החברה תקבע מועד עסקה בגין כל תשלום/תקבול בנפרד.

הפרשנות תיושם לתקופות שנתיות המתחילות ביום 1 בינואר 2018, עם אפשרות ליישום מוקדם. הפרשנות כוללת חלופות שונות עבור יישום הוראות המעבר, כך שחברות תוכלנה לבחור באחת מהחלופות הבאות בעת היישום לראשונה: יישום למפרע; יישום פרוספקטיבי החל מתקופת הדיווח הראשונה שבה הישות יישמה לראשונה את הפרשנות; או יישום פרוספקטיבי החל מתקופת הדיווח הראשונה המוצגת במספרי השוואה בדוחות הכספיים לתקופת שבה הישות יישמה לראשונה את הפרשנות.

הקבוצה בחנה את השלכות יישום הפרשנות על דוחותיה הכספיים ובכוונתה לבחור בחלופת המעבר של יישום פרוספקטיבי החל מיום 1 בינואר 2018.

הקבוצה קבעה בעבר, כי "מועד העסקה" המשמש לקביעת שער החליפין לרישום עסקה במטבע חוץ הכוללת מקדמות יהא המועד בו הקבוצה מכירה לראשונה בנכס/התחייבות לא כספי בגין המקדמה. עקב כך, לא צפויה להיות השפעה מהותית על דוחותיה הכספיים של הקבוצה.

פרשנות של דיווח כספי בינלאומי 23 (IFRIC 23), עמדות מס לא וודאיות

הפרשנות מבהירה כיצד ליישם את דרישות ההכרה והמדידה של IAS 12 כאשר קיימת אי וודאות לגבי עמדות מס. בהתאם לפרשנות, במסגרת קביעת הכנסה חייבת (הפסד) לצורך מס, בסיסי המס, הפסדים מועברים לצורך מס, זיכוי מס שלא נוצלו ושיעורי המס במקרה של אי וודאות, על הישות להעריך האם צפוי (probable) שרשות המס תקבל את עמדת המס שננקטה על ידה. ככל שצפוי שרשות המס תקבל את עמדת המס שנקטה הישות, הישות תכיר בהשלכות המס על הדוחות הכספיים בהתאם לאותה עמדת מס. מאידך, כאשר לא צפוי שרשות המס תקבל את עמדת המס שנקטה, על ישות לשקף את אי הוודאות בספרים באמצעות שימוש באחת מהשיטות הבאות: הסכום הסביר ביותר (most likely outcome) או תוחלת הסכום הצפוי (the expected value). הפרשנות מבהירה כי כאשר בוחנים האם צפוי או לא צפוי שרשות המס תקבל את עמדת המס שננקטה על ידי הישות, יש להניח שרשות המס תבחן את הסכומים שיש לה זכות לכך וכן שהיא מודעת לכל המידע הרלוונטי בבחינה זו. כמו כן, בהתאם לפרשנות יש להתחשב בשינויים בנסיבות או במידע חדש אשר עשויים לשנות הערכה זו. בנוסף, הפרשנות מדגישה את הצורך במתן גילויים בדבר שיקול הדעת של הישות והנחות שהונחו לגבי עמדות מס לא וודאיות.

הפרשנות תיושם לתקופות שנתיות המתחילות ביום 1 בינואר 2019, עם אפשרות לאימוץ מוקדם. הפרשנות כוללת שתי חלופות עבור יישום הוראות המעבר, כך שניתן לבחור בחלופת מעבר של יישום למפרע או יישום פרוספקטיבי החל מתקופת הדיווח הראשונה שבה הישות יישמה לראשונה את הפרשנות.

להערכת הקבוצה, ההשלכות של אימוץ הפרשנות על הדוחות הכספיים אינן צפויות להיות מהותיות.

ביאור 4 - שווי הוגן

א. קביעת שווי הוגן

כחלק מכללי המדיניות החשבונאית ודרישות הגילוי, נדרשת הקבוצה לקבוע את השווי ההוגן של נכסים והתחייבויות פיננסיים ושאינם פיננסיים. ערכי השווי ההוגן נקבעו לצרכי מדידה ו/או גילוי על בסיס השיטות המתוארות להלן. מידע נוסף לגבי ההנחות ששימשו בקביעת ערכי השווי ההוגן, ניתן בביאורים המתייחסים לאותו נכס או התחייבות.

1. לקוחות וחייבים אחרים

השווי ההוגן של לקוחות וחייבים אחרים נקבע על בסיס הערך הנוכחי של תזרימי המזומנים העתידיים, המהוונים על פי שיעור הריבית המתאים למועד הדיווח.

2. השקעות שוטפות ונגזרים

השווי ההוגן של חוזי אקדמה (Forward) על מטבע חוץ נאמד על ידי היוון הפרש בין מחיר ה- Forward הנקוב בחוזה לבין מחיר ה- Forward הנוכחי בגין יתרת התקופה של החוזה עד לפדיון, תוך שימוש בריביות שוק מתאימות למכשירים דומים כולל ההתאמות הנדרשות בגין סיכונים האשראי של הצדדים.

השווי ההוגן של השקעות בבטוחות חוב והשקעות במכשירי הון מבוסס על מחירי שוק מצוטטים.

3. התחייבויות פיננסיות שאינן נגזרות

השווי ההוגן, אשר נקבע לצורך מתן גילוי, מחושב על בסיס הערך הנוכחי של תזרימי המזומנים העתידיים בגין מרכיב הקרן והריבית, המהוונים על פי שיעור ריבית השוק למועד הדיווח.

4. עסקאות תשלום מבוסס מניות

השווי ההוגן של כתבי אופציה לעובדים נמדד באמצעות מודל בלק ושולס. הנחות המודל כוללות את מחיר המניה למועד המדידה, מחיר המימוש של המכשיר, תנודתיות צפויה (על בסיס ממוצע משוקלל של תנודתיות היסטורית המותאם לשינויים צפויים בעקבות מידע זמין לציבור), הממוצע המשוקלל של אורך החיים הצפוי של המכשירים (על בסיס ניסיון העבר וההתנהגות הכללית של המחזיקים בכתב האופציה) ושיעור ריבית חסרת סיכון (על בסיס אגרות חוב ממשלתיות). נתאי שירות אינם נלקחים בחשבון בעת קביעת השווי ההוגן.

ב. היררכיית שווי הוגן

בקביעת השווי ההוגן של נכס או התחייבות, משתמשת הקבוצה בנתונים נצפים מהשוק ככל שניתן. מדידות שווי הוגן מחולקות לשלוש רמות במדרג השווי ההוגן בהתבסס על הנתונים ששימשו בהערכה, כדלקמן:

- רמה 1: מחירים מצוטטים (לא מתואמים) בשוק פעיל למכשירים זהים.
- רמה 2: נתונים נצפים, במישרין או בעקיפין, שאינם כלולים ברמה 1 לעיל.
- רמה 3: נתונים שאינם מבוססים על נתוני שוק נצפים.

ביאור 5 - ניהול סיכונים פיננסיים

האחריות המקיפה לבסס את מסגרת ניהול הסיכונים הפיננסיים של הקבוצה ולפקח עליה מצויה בידי הדירקטוריון. הדירקטוריון הקים תת ועדה לניהול חשיפות פיננסיות, האחראית על פיתוח ומעקב אחר מדיניות ניהול החשיפות הפיננסיות של הקבוצה. תת הוועדה ממליצה לדירקטוריון על שינויים במדיניות ניהול החשיפות הפיננסיות של הקבוצה.

מדיניות ניהול הסיכונים של הקבוצה גובשה בכדי לזהות ולנתח את הסיכונים הפיננסיים העומדים בפני הקבוצה, לקבוע הגבלות הולמות לסיכונים ובקורות ולפקח על הסיכונים והעמידה בהגבלות. המדיניות והשיטות לניהול הסיכונים נסקרות באופן שוטף בכדי לשקף שינויים בתנאי השוק ובפעילות הקבוצה באמצעות הכשרה ונהלים. הקבוצה פועלת לפיתוח סביבת בקרה יעילה בה כל העובדים מבינים את תפקידם ומחויבותם.

ועדת הביקורת של הקבוצה מפקחת על מעקב ההנהלה אחר הציות למדיניות ניהול הסיכונים הפיננסיים של הקבוצה ונהליה והיא בוחנת את ההתאמה של מסגרת ניהול הסיכונים הפיננסיים ביחס לסיכונים העומדים בפני הקבוצה. ראה בנוסף ביאור 21.

ביאור 5 - ניהול סיכונים פיננסיים (המשך)

סיכון אשראי

להנהלה מדיניות אשראי והיא מקיימת מעקב שוטף אחר חשיפת הקבוצה לסיכונים אשראי.

לקוחות וחייבים אחרים

הקבוצה מבצעת הערכת אשראי בגין לקוחות מעל לסכום מסוים ודורשת ביטחונות כנגדם. ההנהלה עוקבת באופן שוטף אחר חובות הלקוחות ובדוחות הכספיים כוללת הפרשות לחובות מסופקים המשקפות בצורה נאותה את ההפסד הגלום בחובות שגבייתם מוטלת בספק. הקבוצה חשופה לסיכונים אשראי הנובעים בעיקר מפעילותה בישראל.

מזומנים ושווי מזומנים

רוב המזומנים ושווי המזומנים של הקבוצה מופקדים במוסדות הבנקאיים המרכזיים בישראל.

השקעות במכשירי חוב

הקבוצה מגבילה את החשיפה לסיכון אשראי על ידי השקעה במכשירי חוב נזילים בלבד ורק כאשר לצד שכנגד יש דירוג אשראי של לפחות "AA-" על ידי סוכנות דירוג מעלות. ההנהלה עוקבת באופן פעיל אחר דירוגי אשראי ובהתחשב בדירוגי אשראי גבוהים אלה, ההנהלה אינה צופה שהצדדים שכנגד לא יעמדו בהתחייבויותיהם.

נגזרים

הצדדים שכנגד לנגזרים שמחזיקה הקבוצה הינם בנקים מרכזיים בישראל.

לתאריך הדיווח לא קיים ריכוז משמעותי של סיכונים אשראי. החשיפה המרבית לסיכון אשראי מיוצגת על ידי הערך בספרים של כל נכס פיננסי, כולל נגזרים בדוח על המצב הכספי המאוחד. מכשירים פיננסיים שבאופן פוטנציאלי מהווים סיכון אשראי לקבוצה הם בעיקרם יתרות לקוחות. סיכון האשראי בגין יתרות הלקוחות הינו מוגבל בגלל הרכב בסיס הלקוחות הכולל מספר רב של לקוחות בודדים ועסקים.

סיכון נזילות

מדיניות הקבוצה לניהול הנזילות שלה היא להבטיח, ככל הניתן, שתמיד תהיה לה נזילות מספקת למילוי התחייבויותיה במועד, בתנאים רגילים ובתנאי קיצון מבלי שיגרמו לה הפסדים בלתי רצויים או פגיעה במוניטין.

עודפי המזומנים המוחזקים על ידי הקבוצה, אשר אינם נדרשים למימון הפעילות השוטפת, מושקעים באפיקי השקעה נושאי ריבית כגון: פיקדונות לזמן קצר ואגרות חוב. אפיקי השקעה אלו נבחרים בהתאם לתחזיות עתידיות לגבי צורכי המזומנים של הקבוצה לצורך עמידה בהתחייבויותיה.

הקבוצה בוחנת תחזיות שוטפות של דרישות הנזילות שלה כדי לוודא שקיימים די מזומנים לצרכיה התפעוליים, תוך הקפדה שבכל עת יהיו מספיק מסגרות אשראי לא מנוצלות כך שהקבוצה לא תחרוג ממסגרות האשראי שנקבעו לה ומאמות המידה הפיננסיות בהן היא מחויבת לעמוד. תחזיות אלו מביאות בחשבון גורמים כגון תכנית הקבוצה להשתמש בחוב לצורך מימון פעילותה, עמידה באמות מידה פיננסיות מחייבות וכן עמידה בדרישות חיצוניות כגון חוקים או רגולציה.

לקבוצה קיימות מחויבות חוזיות לרכישות מלאי, רכוש קבוע ושירותים שוטפים אחרים. למידע נוסף לגבי ההתקשרויות המהותיות ראה ביאור 30, בדבר התקשרויות.

סיכון שוק

במהלך העסקים הרגיל הקבוצה קונה ומוכרת נגזרים וכן לוקחת על עצמה התחייבויות פיננסיות לצורך ניהול סיכונים שוק. העסקאות האמורות מתבצעות בהתאם למדיניות שנקבעה על ידי הדירקטוריון.

סיכון ריבית ומדד

הקבוצה חשופה לתנודתיות בשיעור הריבית, כולל שינויים במדד המחירים לצרכן ("מדד"), מכיוון שחלק מהלוואותיה צמודות למדד. במסגרת מדיניות ניהול הסיכונים, הקבוצה ביצעה עסקאות פרוורד המגדרות באופן חלקי את החשיפה לשינויים במדד. העסקאות האמורות מתבצעות בהתאם למדיניות שנקבעה על ידי הדירקטוריון החברה.

סיכון מטבע

הרווח התפעולי ותזרימי המזומנים של הקבוצה חשופים לסיכון מטבע, בעיקר בשל תשלומים עבור רכישות מכשירים סולאריים, ציוד רשת, רכש תוכן טלוויזיה, רכש קיבולת תקשורת ופעילות שירותי נדידה בינלאומית. כמו-כן, הקבוצה מנהלת חשבונות במטבעות השונים ממטבע הפעילות של הקבוצה, בעיקר בדולר ואירו. במסגרת מדיניות גידור חשיפות פיננסיות, הקבוצה מבצעת עסקאות פרוורד ואופציות על מנת לגדר באופן חלקי את החשיפה מתנודתיות בשערי החליפין.

ביאור 5 - ניהול סיכונים פיננסיים (המשך)

סיכוני מחיר שוק אחרים

סיכון מחירי מכשירים הוניים נובע מניירות ערך הוניים הנמדדים בשווי הוגן דרך רווח והפסד. ההנהלה עוקבת אחר התמהיל של ניירות הערך ההתחייבותיים וההוניים בתיק ההשקעות שלה בהתבסס על מדדי השוק.

ניהול הון

ניהול ההון של הקבוצה נועד להבטיח מבנה הון מבוסס ויעיל הלוקח בחשבון, בין שאר הדברים, את הגורמים הבאים:

יחס מינוף התומך בצרכי תזרים המזומנים של הקבוצה בהתייחס לפוטנציאל יצור תזרימי המזומנים ובמדיניות הדיבידנדים של הקבוצה וזאת בהתחשב במגבלות חלוקת דיבידנדים שנקבעו בשטר הנאמנות של אגרות החוב (סדרות ו' - יב') של הקבוצה ובהסכמי ההלוואות לזמן ארוך וההלוואה הנדחית של החברה, תוך שמירה על יחס חוב נטו ל-EBITDA (ראה הגדרה בביאור 17, בדבר אג"ח והלוואות לזמן ארוך ממוסדות פיננסיים) שנקבעו במסמכים האמורים והעומד בסטנדרטים של הענף. הקבוצה מתייחסת ליחס החוב נטו ל-EBITDA כגורם מדידה חשוב למשקיעים, מחזיקי אגרות החוב, אנליסטים וסוכנויות דירוג. יחס זה אינו מונח חשבונאי ואינו נתמך על ידי תקני דיווח כספי בינלאומיים (IFRS), אי לכך הגדרתו וחישובו עשויים להיות שונים בין חברה אחת לאחרת. חוב הקבוצה כולל בעיקר אגרות חוב לזמן קצר ולזמן ארוך הנסחרות בבורסה לניירות ערך בתל אביב והלוואות ממוסדות פיננסיים.

ביאור 6 - מגזרי פעילות

הקבוצה פועלת בשני מגזרי פעילות ברי דיווח כמפורט להלן, אשר מהווים יחידות עסקיות אסטרטגיות של הקבוצה. יחידות עסקיות אסטרטגיות אלו מנוהלות בנפרד לצורך הקצאת משאבים והערכת ביצועים. מגזרי הפעילות נקבעו בהתבסס על דוחות הנהלה פנימיים שנסקרים על ידי מקבל החלטות התפעוליות הראשי של הקבוצה. מקבל החלטות התפעוליות הראשי אינו בוחן את יתרת הנכסים או ההתחייבויות עבור מגזרים אלה, ולכן הם אינם מוצגים.

- מגזר נייד - המגזר כולל את שירותי התקשורת הסלולרית, ציוד הקצה הסלולרי ושירותים נלווים.
- מגזר ניח - המגזר כולל את שירותי הטלפוניה הקווית, שירותי אינטרנט, שירותי הטלוויזיה, שירותי תמסורת, ציוד קצה ניח ושירותים נלווים.

המדיניות החשבונאית של המגזרים המדווחים מיושמת בעקביות למדיניות החשבונאית המופיעה בביאור 3, בדבר עיקרי המדיניות החשבונאית.

לשנה שהסתיימה ביום 31 בדצמבר 2017*					
מיליוני ש"ח					
התאמה של סך ה-EBITDA המגזרי לרווח לשנה	מאוחד	התאמות למאוחד	ניח	נייד	
	3,871	-	1,186	2,685	הכנסות מחיצוניים
	-	(176)	162	14	הכנסות בין מגזריות
	853		258	595	EBITDA מגזרי**
(555)					פחת והפחתות
(40)					מיסים על הכנסה
52					הכנסות מימון
(196)					הוצאות מימון
1					הכנסות אחרות
(2)					תשלומים מבוססי מניות
	113				רווח לשנה

ביאור 6 - מגזרי פעילות (המשך)

לשנה שהסתיימה ביום 31 בדצמבר 2016					
מיליוני ש"ח					
התאמה של סך ה- EBITDA המגזרי לרווח לשנה	מאוחד	התאמות למאוחד	נייח	נייד	
	4,027	-	1,046	2,981	הכנסות מחיצוניים
	-	(200)	183	17	הכנסות בין מגזריות
858			233	625	EBITDA מגזרי**
(534)					פחת והפחתות
(10)					מיסים על הכנסה
46					הכנסות מימון
(196)					הוצאות מימון
(8)					הוצאות אחרות
(6)					תשלומים מבוססי מניות
150					רווח לשנה

לשנה שהסתיימה ביום 31 בדצמבר 2015					
מיליוני ש"ח					
התאמה של סך ה- EBITDA המגזרי לרווח לשנה	מאוחד	התאמות למאוחד	נייח	נייד	
	4,180	-	995	3,185	הכנסות מחיצוניים
	-	(204)	186	18	הכנסות בין מגזריות
872			271	601	EBITDA מגזרי**
(562)					פחת והפחתות
(36)					מיסים על הכנסה
55					הכנסות מימון
(232)					הוצאות מימון
3					הכנסות אחרות
(3)					תשלומים מבוססי מניות
97					רווח לשנה

* ראה ביאור 2 ו, בדבר אימוץ מוקדם של IFRS 15, הכנסות מחוזים עם לקוחות.

** EBITDA מגזרי שנסקר על ידי מקבל ההחלטות התפעוליות הראשי של הקבוצה, מייצג את הרווח לפני ריבית (הוצאות מימון, נטו), מיסים, הכנסות (הוצאות) אחרות (למעט הוצאות בגין תוכניות פרישה מרצון לעובדים ורווחים (הפסדים) ממכירת חברות בנות (ראה ביאור 26, בדבר הכנסות (הוצאות) אחרות)), פחת והפחתות ותשלומים מבוססי מניות, ככלי למדידת הרווח התפעולי. EBITDA מגזרי אינו מדד פיננסי בהתאם ל-IFRS ואין להשוותו למדדים דומים בחברות אחרות.

ביאור 7 - חברות בנות

א. להלן רשימה של החברות הבנות המהותיות בקבוצה:

שם החברה הבת	מיקום עיקרי של פעילות החברה הבת	זכויות בעלות של הקבוצה בחברה הבת לשנה שהסתיימה ביום 31 בדצמבר	
		2017	2016
נטוויז'ן בע"מ	ישראל	100%	100%
013 נטוויז'ן בע"מ	ישראל	100%	100%

ב. מכירת חברת בת בעקיפין של החברה

בחודש מאי 2017, 013 נטוויז'ן בע"מ, או נטוויז'ן, חברה בת בבעלות מלאה של החברה, התקשרה בהסכם למכירת החזקותיה באינטרנט רימון ישראל 2009 בע"מ, או רימון, חברה בת של נטוויז'ן, לבעלי המניות האחרים ברימון. בחודש יוני 2017, הושלמה מכירת החזקות נטוויז'ן ברימון, בעקבותיה רשמה החברה תחת סעיף הכנסות אחרות, נטו, רווח הון בסך כ- 10 מיליון ש"ח. התמורה תשולם לנטוויז'ן במספר תשלומים על פני תקופה של שנתיים ממועד השלמת העסקה.

מיליוני ש"ח	תמורה מהמכירה
25	
(12)	נכסים והתחייבויות מזוהים שנמכרו:
(4)	מזומנים ושויי מזומנים
(2)	לקוחות וחייבים אחרים
(23)	רכוש קבוע, נטו
7	נכסים בלתי מוחשיים ואחרים, נטו
4	ספקים והוצאות לשלם
15	זכאים אחרים, לרבות נגזרים
15	זכויות שאינן מקנות שליטה
	נכסים מזוהים, נטו
10	רווח הון מהמכירה

ג. תזרימי המזומנים המצרפיים אשר נבעו לקבוצה כתוצאה מעסקת המכירה:

15	מזומנים ושויי מזומנים שהתקבלו
(12)	בניכוי מזומנים ושויי מזומנים של החברה הבת
3	

ג. למידע נוסף בדבר ארגון מחדש של חברות הבנות בקבוצה שבעקבותיו כל הפעילות הניחת של הקבוצה תחת הרישיון האחד, אוחדה תחת חברת בת בבעלות מלאה של החברה, סלקום תקשורת קוית שותפות מוגבלת, ראה ביאור 32 ה בדבר רגולציה וחקיקה.

ביאור 8 - מזומנים ושווי מזומנים

הרכב:

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
178	59	יתרות שוטפות בבנקים
1,062	468	פקדונות לפי דרישה
<u>1,240</u>	<u>527</u>	

חשיפת הקבוצה לסיכון שיעור ריבית וניתוח רגישות לנכסים ולהתחייבויות הפיננסיים, מפורטים בביאור 21.

ביאור 9 - לקוחות וחייבים

הרכב:

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
		שוטף
		לקוחות*
512	475	חובות פתוחים
160	173	המחאות לגביה ושוברי כרטיסי אשראי
87	109	הכנסות לקבל
566	523	חלויות שוטפות של לקוחות לזמן ארוך
<u>1,325</u>	<u>1,280</u>	
		חייבים ויתרות חובה
54	76	הוצאות מראש
7	13	אחרים
<u>61</u>	<u>89</u>	
<u>1,386</u>	<u>1,369</u>	
		לא שוטף
		לקוחות*
461	412	זכויות שימוש בקווי תקשורת
327	337	פקדונות וחייבים אחרים
1	30	הלוואה ללקוח
-	107	אחרים
7	9	
<u>796</u>	<u>895</u>	
<u>2,182</u>	<u>2,264</u>	

* בניכוי הפרשה לחובות מסופקים.

הקבוצה חשופה לסיכונים אשראי ולהפסדים בגין ירידת ערך המתייחסים ללקוחות וחייבים אחרים, כפי שמפורט בביאור 21. יתרות לקוחות שאינן שוטפות, הינן בגין מכירות ציוד קצה בתשלומים (בעיקר 36 תשלומים חודשיים) וערכן הנוכחי ליום 31 בדצמבר, 2017, מחושב לפי שיעור היוון שנתי של 3.3% (31 בדצמבר 2016 - 3.3%).

ביאור 10 - מלאי

א. ההרכב:

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
42	53	טלפונים סולאריים
10	9	אביזרים
12	8	חלקי חילוף
<u>64</u>	<u>70</u>	

ב. בשנת 2017, בדקה הקבוצה את הצורך בירידת ערך של מלאי שצריכתו הייתה איטית והפחיתה ב-3 מיליון ש"ח את ערכו בהתאם לשווי המימוש נטו (2016 - 2 מיליון ש"ח). ההפחתה נזקפה לסעיף עלות המכר.

ביאור 11 - רכוש קבוע, נטו

מחשבים, ריהוט וציוד	שיפורים במושכר	סך הכל	מחשבים, ריהוט וציוד	שיפורים במושכר	סך הכל	
ניחת	מיליוני ש"ח	מיליוני ש"ח	ניחת	מיליוני ש"ח	מיליוני ש"ח	
347	156	6,305	347	156	6,305	עלות יתרה ליום 1 בינואר 2016
105	6	301	105	6	301	תוספות גריעות
(82)	(38)	(964)	(82)	(38)	(964)	
<u>370</u>	<u>124</u>	<u>5,642</u>	<u>370</u>	<u>124</u>	<u>5,642</u>	יתרה ליום 31 בדצמבר 2016
151	6	348	151	6	348	תוספות גריעות
(25)	(17)	(324)	(25)	(17)	(324)	יצאה מאיחוד (ראה ביאור 7 ב)
-	-	(4)	-	-	(4)	יתרה ליום 31 בדצמבר 2017
<u>496</u>	<u>113</u>	<u>5,662</u>	<u>496</u>	<u>113</u>	<u>5,662</u>	
168	104	4,560	168	104	4,560	פחת נצבר יתרה ליום 1 בינואר 2016
67	12	375	67	12	375	פחת השנה גריעת פחת
(75)	(33)	(952)	(75)	(33)	(952)	
<u>160</u>	<u>83</u>	<u>3,983</u>	<u>160</u>	<u>83</u>	<u>3,983</u>	יתרה ליום 31 בדצמבר 2016
105	11	397	105	11	397	פחת השנה גריעת פחת
(24)	(17)	(314)	(24)	(17)	(314)	יצאה מאיחוד (ראה ביאור 7 ב)
-	-	(2)	-	-	(2)	יתרה ליום 31 בדצמבר 2017
<u>241</u>	<u>77</u>	<u>4,064</u>	<u>241</u>	<u>77</u>	<u>4,064</u>	
179	52	1,745	179	52	1,745	יתרה מופחתת ליום 1 בינואר 2016
210	41	1,659	210	41	1,659	יתרה מופחתת ליום 31 בדצמבר 2016
<u>255</u>	<u>36</u>	<u>1,598</u>	<u>255</u>	<u>36</u>	<u>1,598</u>	יתרה מופחתת ליום 31 בדצמבר 2017

במהלך העסקים הרגיל, הקבוצה רוכשת רכוש קבוע באשראי. עלות הרכישה, שטרם שולמה למועד הדיווח, הסתכמה לסך של 143 מיליון ש"ח (ליום 31 בדצמבר 2016 ו-2015 סך של 120 מיליון ש"ח ו-169 מיליון ש"ח, בהתאמה).

ביאור 12 - נכסים בלתי מוחשיים ואחרים, נטו

עלות

סך הכל	קשרי לקוחות ואחר	מוניטין	עלויות השגת חוזה	תוכנות	מערכות מידע	רישיונות ותדרים	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
2,064	324	830	-	62	296	552	יתרה ליום 1 בינואר 2016
81	-	-	-	8	73	-	תוספות
(98)	(16)	-	-	(17)	(65)	-	גריעות
2,047	308	830	-	53	304	552	יתרה ליום 31 בדצמבר 2016
202	6	-	120	4	72	-	תוספות
(60)	-	-	-	(12)	(48)	-	גריעות
(24)	-	(21)	-	-	(3)	-	יציאה מאיחוד (ראה ביאור 7 ב)
2,165	314	809	120	45	325	552	יתרה ליום 31 בדצמבר 2017
810	309	-	-	34	116	351	פחת נצבר
128	13	-	-	13	71	31	יתרה ליום 1 בינואר 2016
(98)	(16)	-	-	(17)	(65)	-	פחת השנה
840	306	-	-	30	122	382	גריעת פחת
126	3	-	27	9	68	19	יתרה ליום 31 בדצמבר 2016
(60)	-	-	-	(12)	(48)	-	פחת השנה
(1)	-	-	-	-	(1)	-	גריעת פחת
905	309	-	27	27	141	401	יציאה מאיחוד (ראה ביאור 7 ב)
1,254	15	830	-	28	180	201	יתרה ליום 31 בדצמבר 2017
1,207	2	830	-	23	182	170	יתרה מופחתת ליום 1 בינואר 2016
1,260	5	809	93	18	184	151	יתרה מופחתת ליום 31 בדצמבר 2016

במהלך העסקים הרגיל, הקבוצה רוכשת נכסים בלתי מוחשיים באשראי. עלות הרכישה, שטרם שולמה למועד הדיווח, הסתכמה לסך של 28 מיליון ש"ח (ליום 31 בדצמבר 2016 ו-2015 סך של 32 מיליון ש"ח ו-33 מיליון ש"ח, בהתאמה).

א. בדיקת ירידת ערך ליחידה מניבת מזומנים הכוללת מוניטין

לצורך בדיקת ירידת ערך, המוניטין מיוחס בעיקר למגזר הנייח, המהווה את הרמה הנמוכה ביותר בקבוצה, במסגרתה נערך מעקב אחר המוניטין לצרכי ניהול פנימיים ואשר אינה גבוהה ממגזרי הפעילות המדווחים. ראה ביאור 6 בדבר מגזרי פעילות.

הערך בספרים של המוניטין שיוחס למגזר הנייח ליום 31 בדצמבר, 2017, הינו 732 מיליון ש"ח (ליום 31 בדצמבר 2016 - 753 מיליון ש"ח). ראה גם ביאור 7 ב, בדבר מכירת חברה בת בעקיפין של החברה.

סכום בר ההשבה של המגזר הנייח התבסס על שווי השימוש שלו ונקבע על ידי היוון תזרימי המזומנים העתידיים הצפויים להיות מופקים מהשימוש המתמשך. הסכום בר ההשבה של המגזר הנייח ליום 31 בדצמבר, 2017, הינו גבוה מערכה בספרים ולכן, לא הוכר הפסד מירידת ערך.

ביאור 12 - נכסים בלתי מוחשיים ואחרים, נטו (המשך)

ב. הנחות מפתח ששימשו לחישוב הסכום בר ההשבה

הנחות המפתח ששימשו לחישוב הסכום בר ההשבה הינן שיעור היוון ושיעור צמיחה לטווח ארוך. להלן ההנחות:

(1) שיעור היוון לפני מס ושיעור צמיחה לטווח ארוך

שיעור צמיחה לטווח ארוך		שיעור היוון לפני מס		
2016	2017	2016	2017	
1.5%	1.5%	10.4%	10.3%	מגזר ניח

- שיעור ההיוון לפני מס ושיעור הצמיחה לטווח ארוך נקובים במונחים ריאליים.
- למגזר הניח תזרים מזומנים ל-5 שנים, כפי שנכלל במודל ה-DCF שלה.
- שיעור הצמיחה השנתי לטווח הארוך נאמד ב-1.5% המשקף, בין היתר, את קצב הגידול הטבעי באוכלוסייה.
- שיעור ההיוון לפני מס, נאמד ומחושב לפי מספר הנחות, ביניהן, התשואה הנדרשת על ההון העצמי של המגזר הניח, פרמיית סיון על חוב נורמטיבי בקבוצה והערכות של שיעור המינוף הנורמטיבי בענף.

(2) רגישות לשינויים בהנחות

הסכום בר ההשבה המוערך של המגזר הניח, עולה על ערכו בספרים בכ-105 מיליון ש"ח (2016 – כ-74 מיליון ש"ח). ההנהלה זיהתה שתי הנחות מפתח שבהן ייתכן ובאופן סביר יתרחש שינוי אפשרי אשר יגרום לערך בספרים לגדול מעל הסכום בר ההשבה. להלן פרטים בדבר סכום השינוי הנדרש בהשפעת שתי ההנחות, כל אחת בנפרד, בכדי להביא לשוויון בין הערך בספרים לבין הסכום בר ההשבה:

2016	2017	
10.8%	10.8%	שיעור היוון לפני מס
1.0%	0.9%	שיעור צמיחה לטווח ארוך

ביאור 13 - ספקים והוצאות לשלם

הרכב:

ליום 31 בדצמבר	
2016	2017
מיליוני ש"ח	מיליוני ש"ח
203	256
472	396
675	652

ספקים
הוצאות לשלם

ביאור 14 - הפרשות

הרכב:

סך הכל מיליוני ש"ח	התחייבויות	תביעות	פירוק	יתרה ליום 1 בינואר 2016 הפרשות שנוצרו במהלך השנה הפרשות שבטלו במהלך השנה יתרה ליום 1 בינואר 2017
	חוזיות אחרות	משפטיות	ושיקום אתרים	
	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
130	56	54	20	
42	1	27	14	
(34)	(9)	(21)	(4)	
<u>138</u>	<u>48</u>	<u>60</u>	<u>30</u>	
27	11	14	2	הפרשות שנוצרו במהלך השנה
(53)	(17)	(25)	(11)	הפרשות שבטלו במהלך השנה
<u>112</u>	<u>42</u>	<u>49</u>	<u>21</u>	יתרה ליום 31 בדצמבר 2017
21	-	-	21	לא שוטף
91	42	49	-	שוטף
<u>112</u>	<u>42</u>	<u>49</u>	<u>21</u>	

הפרשות בגין פירוק ושיקום אתרים

הקבוצה נדרשת להכיר בעלויות מסוימות לסילוק נכסים ולשיקום האתרים בהם היו ממוקמים הנכסים. הוצאות פירוק אלו מחושבות בהתבסס על שווי הפירוק בשנה הנוכחית תוך התחשבות בהערכה הטובה ביותר לשינויים עתידיים של מחירים, אינפלציה וכדומה, ומהוונות בריבית חסרת סיכון. תחזית לגבי היקף הנכסים המסולקים או המוקמים מעודכנת בהתאם לשינויים רגולטוריים ודרישות טכנולוגיות צפויות.

הפרשות בגין תביעות משפטיות

הקבוצה מעורבת במספר נושאים משפטיים ומחלוקות אחרות עם צדדים שלישיים. הנהלת הקבוצה, לאחר קבלת יעוץ משפטי, יצרה הפרשות אשר מתייחסות לעובדות לגבי כל מקרה לגופו. לא ניתן לקבוע בצורה מהימנה את העיתוי של תזרים המזומנים שקשור לתביעות אלו. לפרטים נוספים בנוגע לתביעות משפטיות כנגד הקבוצה, ראה ביאור 31.

הפרשות בגין התחייבויות חוזיות אחרות

הפרשות בגין התחייבויות חוזיות וחשיפות אחרות כוללות מספר התחייבויות הנובעות מהתחייבות חוזית או חקיקה שבהם יש מרכיב של אי ודאות גבוהה ביחס לעיתוי ולסכומים הנדרשים לצורך סיום ההתחייבות.

ביאור 15 - זכאים ויתרות זכות, כולל נגזרים

הרכב:

ליום 31 בדצמבר		עובדים והתחייבויות נלוות מוסדות ממשלתיים ריבית לשלם הוצאות לשלם הכנסות מראש מכשירים פיננסיים נגזרים
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
126	133	
43	29	
86	54	
3	1	
19	42	
2	18	
<u>279</u>	<u>277</u>	

ביאור 16 - התחייבויות אחרות לזמן ארוך

הרכב:

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
3	1	התחייבויות לזמן ארוך לספקים
2	3	הכנסות מראש
15	-	מכשירים פיננסיים נגזרים
11	11	אחרים
<u>31</u>	<u>15</u>	

ביאור 17 - אג"ח והלוואות לזמן ארוך ממוסדות פיננסיים

ביאור זה נותן מידע לגבי התנאים החוזיים של אגרות החוב וההלוואות לזמן ארוך ממוסדות פיננסיים של הקבוצה, אשר נמדדות בעלות מופחתת. למידע נוסף בדבר חשיפת הקבוצה לסיכונים ריבית, מטבע חוץ ונזילות, ראה ביאור 21.

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
2,866	2,360	התחייבויות שאינן שוטפות
		אגרות חוב
		הלוואות לזמן ארוך ממוסדות
		פיננסיים
340	462	
<u>3,206</u>	<u>2,822</u>	
863	540	התחייבויות שוטפות
		חלויות שוטפות של אגרות חוב
		חלויות שוטפות של הלוואות
		ממוסדות פיננסיים
-	78	
<u>863</u>	<u>618</u>	

אגרות חוב

תנאים וטבלת החזר חוב

תנאי אגרות החוב של החברה ותקופות החזר מפורטים בטבלה הבאה*:

31 בדצמבר 2016		31 בדצמבר 2017		שנת הפרעון	שיעור ריבית נומינלית	מטבע	
מיליוני ש"ח		מיליוני ש"ח					
ערך בספרים	ערך נקוב	ערך בספרים	ערך נקוב				
220	185	-	-	עד 2017	5.30%	ש"ח	אגרות חוב סדרה ב- צמוד מדד
349	299	-	-	עד 2017	5.19%	ש"ח	אגרות חוב סדרה ד- צמוד מדד
164	164	-	-	עד 2017	6.25%	ש"ח	אגרות חוב סדרה ה- לא צמוד
731	715	659	643	2017 עד 2020	4.60%	ש"ח	אגרות חוב סדרה ו** - צמוד מדד
285	285	228	228	2017 עד 2019	6.99%	ש"ח	אגרות חוב סדרה ז** - לא צמוד
824	950	849	950	2018 עד 2024	1.98%	ש"ח	אגרות חוב סדרה ח- צמוד מדד
753	804	761	804	2018 עד 2025	4.14%	ש"ח	אגרות חוב סדרה ט- לא צמוד
102	103	102	103	2021 עד 2026	2.45%	ש"ח	אגרות חוב סדרה י- צמוד מדד
301	304	301	304	2021 עד 2026	3.55%	ש"ח	אגרות חוב סדרה יא- לא צמוד
<u>3,729</u>	<u>3,809</u>	<u>2,900</u>	<u>3,032</u>				סך אגרות חוב

ביאור 17 - אג"ח והלוואות לזמן ארוך ממוסדות פיננסיים (המשך)

אגרות חוב (המשך)

* בחודש ינואר 2018, לאחר סוף תקופת הדיווח, פרעה החברה קרן וריבית בגין אגרות חוב בסכום כולל של כ-418 מיליון ש"ח.

** בחודש יוני 2013, עודכן הדירוג של החברה מדירוג "ilAA/שלי" לדירוג "ilA+/יציב", ביחס לאגרות החוב של החברה הנסחרות בבורסת תל אביב. בעקבות עדכון זה של הדירוג ומאחר שזו הייתה ירידת הדירוג השנייה של אגרות החוב ממועד הנפקתן, שיעור הריבית השנתית שהחברה משלמת עבור אגרות החוב סדרה ו' וסדרה ז' הועלה ב- 0.25% ל- 4.60% ו- 6.99%, בהתאמה, החל מה-5 ביולי, 2013.

אגרות חוב המונפקות של החברה הונפקו על בסיס תשקיף המדף הישראלי של החברה שהיה בתוקף במועד ההנפקה והינן רשומות למסחר בבורסת תל אביב.

אגרות החוב של החברה אינן מובטחות בשעבוד וכוללות תנאים מקובלים בנוסף להתחייבויות מסוימות נוספות של החברה, כדלקמן:

בקשר עם הנפקת אגרות חוב סדרה ו' ואגרות חוב סדרה ז', התחייבה החברה לעמוד באמות מידה פיננסיות ואחרות, ביניהן:

- יחס חוב ל-EBITDA* העולה על 5, או העולה על 4.5 במשך ארבעה רבעונים עוקבים, יחשב כעילה לפירעון מיידי. ליום 31 בדצמבר, 2017, יחס החוב ל-EBITDA הינו 3.00;
- לא לחלק יותר מ-95% מהרווחים הראויים לחלוקה לפי חוק החברות הישראלי ("הרווחים"), ובלבד שאם יחס החוב ל-EBITDA* עולה על 3.5:1, החברה לא תחלק יותר מ-85% מהרווחים ואם יחס החוב ל-EBITDA* עולה על 4:1, החברה לא תחלק יותר מ-70% מהרווחים. אי עמידה באמת מידה זו, תחשב כעילה לפירעון מיידי;
- העמדה לפירעון מיידי של חוב של החברה (cross default), למעט פירעון מיידי ביחס לחוב בסך 150 מיליון ש"ח או פחות, תחשב כעילה לפירעון מיידי;
- התחייבות לאי יצירת שעבודים, בכפוף לחריגים מסוימים. אי עמידה בהתחייבות זו, תחשב כעילה לפירעון מיידי;
- התחייבות לשלם ריבית נוספת של 0.25% בגין ירידה של שתי דרגות בדירוג אגרות החוב וכן, התחייבות לשלם ריבית נוספת של 0.25% בגין כל ירידה של דרגה נוספת ועד לתוספת מקסימאלית של 1%, בהשוואה לדירוג שניתן לאגרות החוב לפני הנפקתן;
- אי דירוג של אגרות החוב במשך 60 יום, יחשב כעילה לפירעון מיידי.

* יחס חוב ל-EBITDA - היחס בין החוב נטו ל-EBITDA, בנטרול השפעות חד פעמיות. חוב נטו מוגדר כאשראי והלוואות מתאגידים בנקאיים ומאחרים וכן התחייבויות בגין אגרות חוב, בניכוי מזומנים ושווי מזומנים והשקעות שוטפות בניירות ערך סחירים. EBITDA מוגדר ביחס לתקופה של 12 החודשים שקדמו למועד הדוחות הכספיים המאוחדים האחרונים של הקבוצה ומחושב כרווח לפני פחת והפחתות, הוצאות/הכנסות אחרות, נטו, הוצאות/הכנסות מימון, נטו ומיסים על הכנסה.

בקשר עם הנפקת אגרות חוב סדרה ח' ואגרות חוב סדרה ט' בחודש יולי 2014, התחייבה החברה בהתחייבויות נוספות, בנוסף להתחייבויות שניטלו על ידי החברה ביחס לאגרות חוב (סדרה ו') ו-(סדרה ז') שלה (כמפורט לעיל), לרבות: (1) בנוסף להיותה עילת פירעון מיידי, עמידה באמות המידה הפיננסיות שהחברה התחייבה בהן בעבר (יחס מינוף נטו (יחס חוב נטו ל-EBITDA) מקסימלי העולה על 5.0:1 או העולה על 4.5:1 לארבעה רבעונים עוקבים) תהווה תנאי לחלוקת דיבידנד; ו-(2) עמידה באמות המידה הפיננסיות תהווה תנאי להנפקת אגרות חוב נוספות מכל אחת משתי הסדרות. בנוסף, שטר הנאמנות לאגרות חוב סדרה ח' ואגרות חוב סדרה ט' כולל עילות להעמדת אגרות החוב לפירעון מיידי הדומות בעיקרן לעילות להעמדה לפירעון מיידי הכלולות בשטר הנאמנות לאגרות חוב (סדרה ו') ו-(סדרה ז'), למעט עילות חדשות מסוימות להעמדה לפירעון מיידי שלא כלולות בשטר הנאמנות לאגרות חוב (סדרה ו') ו-(סדרה ז') ושינויים מסוימים לעילות ההעמדה לפירעון מיידי שקיימות בשטר הנאמנות לאגרות חוב (סדרה ו') ו-(סדרה ז'), לרבות: (1) הפרה של המגבלה האמורה בעניין חלוקת דיבידנדים; (2) הסכום המינימלי הנדרש כדי להוות עילה לפירעון מיידי של cross default לא יחול על cross default שנגרם על ידי סדרה אחרת של אגרות חוב; (3) קיום חשש ממשי שהחברה לא תעמוד בהתחייבויות המהותיות שלה כלפי מחזיקי אגרות החוב; (4) הכללת הערת "עסק חי" בדוחות הכספיים של החברה לתקופה של שני רבעונים רצופים; ו-(5) הפרת התחייבויות החברה ביחס להנפקת אגרות חוב נוספות.

אגרות החוב סדרה י' ו-יא' כוללות תנאים מקובלים בנוסף להתחייבויות מסוימות נוספות של החברה הדומות, ככלל, לתנאים של אגרות החוב הקיימות של החברה סדרה ח' ו-ט'.

בחודש יוני 2017, התקשרה החברה בהסכם עם משקיעים מוסדיים ישראליים מסוימים, לפיו התחייבה החברה באופן בלתי חוזר להנפיק למשקיעים המוסדיים, והמשקיעים המוסדיים התחייבו באופן בלתי חוזר לרכוש מהחברה, סך מצטבר של 220 מיליון ש"ח ערך נקוב של אגרות חוב (סדרה יא') נוספות מאגרות חוב סדרה יא' הקיימת של החברה (הרשומות למסחר בבורסת תל אביב), ביום 1 ביולי 2018, או התאריך המוסכם.

המחיר נקבע ל-1.011 ש"ח לכל 1 ש"ח ערך נקוב של אגרות חוב (סדרה יא') (הנושאות שיעור ריבית של 3.55% לשנה), או תמורה כוללת בסך של כ-222 מיליון ש"ח, המשקף שיעור ריבית אפקטיבית של 3.6% לשנה. החברה מחויבת לשלם דמי התחייבות מסוימים למשקיעים המוסדיים. במקרה שדירוג אגרות החוב בתאריך המוסכם יהיה il(A-) או למטה מכך, המחיר יופחת לסך של 1.001 ש"ח עבור כל 1 ש"ח ערך נקוב של אג"ח (סדרה יא').

השלמת ההנפקה כפופה לתנאים מקובלים, לרבות: אי קיום כל אירוע פרעון מיידי תחת שטר הנאמנות של אגרות חוב (סדרה יא'), קיום תשקיף מדף בתוקף של החברה, מילוי התנאים הקבועים בשטר הנאמנות של אגרות חוב (סדרה יא') להנפקת אגרות חוב

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אגרות חוב (המשך)

נוספות (סדרה יא') (דהיינו, למעט העדר אירוע פרעון מיידי כאמור לעיל, שעצם הנפקת אגרות החוב הנוספות לא תגרום לירידת דירוג ביחס לדירוג קודם להנפקה האמורה, ושהחברה תעמוד באמות המידה הפיננסיות החלות על אגרות חוב (סדרה יא') במועד ההנפקה האמור ולאחריה).

בחודש ינואר 2018, לאחר סוף תקופת הדיווח, הנפיקה החברה סדרת אג"ח חדשה, אגרות חוב (סדרה יב'), בערך נקוב של כ-401 מיליון ש"ח, בשיעור ריבית שנתי של 2.5% (שיעור ריבית אפקטיבית שנתי של 2.66%). קרן אגרות החוב סדרה יב' תעמוד לפירעון ב-6 (שישה) תשלומים, מהם 4 התשלומים הראשונים בסך 15% מסכום הקרן ישולמו ביום 5 בינואר של כל אחת מהשנים 2023 עד 2026, ו-2 התשלומים הנותרים בסך של 20% מסכום הקרן ישולמו ביום 5 בינואר של כל אחת מהשנים 2027 ו-2028. הריבית על היתרה הבלתי מסולקת של קרן אגרות החוב סדרה יב' תשולם בימים 5 בינואר של כל אחת מהשנים 2019 עד 2028. הסדרה הונפקה בערכה הנקוב (1,000 ש"ח ליחידה). סך התמורה נטו שהתקבלה על ידי החברה היא כ-400 מיליון ש"ח. אגרות החוב (קרן וריבית) אינן צמודות.

אגרות החוב סדרה יב' אינן מובטחות בשעבוד וכוללות תנאים מקובלים בנוסף להתחייבויות מסוימות נוספות של החברה הדומות, ככלל, לתנאים של אגרות החוב הקיימות של החברה סדרה י' ו-יא', בשינוי הריבית הנוספת שתשולם במקרה של ירידה של שתי דרגות בדירוג אגרות החוב ל-0.5% (ללא שינוי לריבית הנוספת המקסימלית).

נכון ליום 31 בדצמבר 2017, הקבוצה עומדת באמות המידה שנקבעו.

הלוואות לזמן ארוך ממוסדות פיננסיים

תנאי הלוואות לזמן ארוך ותקופות החזר מפורטים בטבלה הבאה:

31 בדצמבר 2016		31 בדצמבר 2017		שנת הפרעון	שיעור ריבית נומינלי	מטבע	
מיליוני ש"ח		מיליוני ש"ח					
ערך	ערך נקוב	ערך	ערך נקוב				
200	200	200	200	2018 עד 2021	4.60%	ש"ח	הלוואה ממוסד פיננסי
-	-	200	200	2019 עד 2022	5.10%	ש"ח	הלוואה ממוסד פיננסי*
140	140	140	140	2018 עד 2022	4.90%	ש"ח	הלוואה מבנק
340	340	540	540				סך הלוואות

* בהתאם להתקשרות החברה בהסכם הלוואה עם שני מוסדות פיננסיים מחודש מאי 2015, ביום 30 ביוני 2017, הועמדה לחברה הלוואה השנייה לפי ההסכם בסך של 200 מיליון ש"ח. הלוואה אינה צמודה ונושאת ריבית שנתי קבועה בשיעור של 5.1%. קרן הלוואה תועמד לפירעון בארבעה תשלומים שווים ב-30 ביוני של כל אחת מהשנים 2019 ועד 2022 (כולל). הריבית תשולם בעשרה תשלומים חצי שנתיים ב-30 ביוני וב-31 בדצמבר של כל שנה קלנדרית החל מיום 31 בדצמבר 2017, ועד ליום 30 ביוני 2022 (כולל).

הלוואות הקיימות לזמן ארוך של החברה כוללות תנאים מקובלים בנוסף להתחייבויות מסוימות נוספות של החברה, לרבות: כי שיעורי הריבית של הלוואות עלולים להיות כפופים להתאמות מסוימות; החברה רשאית לפרוע בפירעון מוקדם את הלוואות, בכפוף לעמלת פירעון מוקדם מסוימת; כוללים, ככלל, את השעבוד השלילי, הגבלות על חלוקה, אירועי פירעון מיידי והתניות פיננסיות החלים על אגרות חוב סדרות ו-ט' של החברה. בנוסף, הלוואה מהבנק כוללת: התאמות מסוימות לאירועי פירעון מיידי האמורים, לרבות עיקול, מימוש שעבוד, פעולות הוצאה לפועל, כינוס וכן (בכפוף למספר חריגים)- מכירת נכסים, בסכום מסוים נמוך יותר שנקבע, הפסקת פעילות בתחום שהינו מהותי לפעילות החברה ומיזוג ושינוי מבנה (עם חריגים מצומצמים יותר) שיהוו עילה לפירעון מיידי; אירועים מסוימים שבמידה ולא יאושרו על ידי המלווה מאפשרים למלווה להודיע לחברה על האצת מועד הפירעון של הלוואה; ובמידה והחברה תתחייב בהתניות פיננסיות מחמירות יותר כלפי גוף פיננסי או מחזיק אגרות חוב אחר, הן יחולו גם על הסכם זה.

הלוואה נדחית מבנק

בחודש יוני 2017, התקשרה החברה בהסכם הלוואה עם הבנק הישראלי, אשר העמיד לחברה הלוואה דומה בחודש אוגוסט 2015 ("הסכם הלוואה 2015"), שלפיו הסכים הבנק, בכפוף לתנאים מסוימים מקובלים, להעמיד לחברה הלוואה נדחית בסכום של 150 מיליון ש"ח, לא צמודה, שתועמד לחברה בחודש מרס 2019, ותישא ריבית שנתי קבועה של 4%. קרן הלוואה תעמוד לפירעון בארבעה תשלומים שווים ב-31 במרס של כל אחת מהשנים 2021 עד 2024 (כולל) והריבית תשולם ב-10 תשלומים חצי שנתיים ב-31 במרס וב-30 בספטמבר של כל שנה קלנדרית החל מ-30 בספטמבר 2019 ועד 31 במרס 2024 (כולל). עד להעמדת הלוואה, החברה מחויבת לשלם לבנק עמלת התחייבות.

ההסכם כולל תנאים והתחייבויות דומים לאלו הכלולים בהסכם הלוואה 2015 של החברה ומחיל את הזכות לדרוש פרעון מיידי של אחד ההסכמים או שניהם בגין עילות פרעון מיידי מסוימות תחת שני ההסכמים.

נכון ליום 31 בדצמבר 2017, הקבוצה עומדת באמות המידה שנקבעו.

ביאור 17 - אג"ח והלוואות לזמן ארוך ממוסדות פיננסיים (המשך)

תנועה בהתחייבויות הנובעת מפעילויות מימון

הלוואות	אגרות חוב	מכשירים נגזרים	ריבית לשלם	אופציות מכר לבעלי זכויות שאינן מקנות שליטה	סה"כ	
מיליוני ש"ח						
(340)	(3,729)	(17)	(86)	(11)	(4,183)	יתרה ליום 1 בינואר 2017
(200)	-	-	-	-	(200)	שינויים כתוצאה מתזרימי מזומנים מפעילויות מימון
-	864	3	175	1	1,043	מזומן שהתקבל
(540)	(2,865)	(14)	89	(10)	(3,340)	מזומן ששולם
-	(3)	-	-	-	(3)	סה"כ מזומנים נטו שנבעו מפעילויות מימון
-	-	(3)	-	-	(3)	הוצאות הפרשי הצמדה
-	-	-	-	-	(3)	שינויים בשווי הוגן
-	(32)	-	-	-	(32)	הפחתת ניכיון
-	-	-	(143)	(1)	(144)	הוצאות ריבית
(540)	(2,900)	(17)	(54)	(11)	(3,522)	יתרה ליום 31 בדצמבר 2017

ביאור 18 - התחייבות בשל סיום יחסי עובד-מעביד, נטו

התחייבויות הקבוצה על פי החוק והסכמי עבודה, לתשלום פיצויי פיטורין לעובדים אשר אינם מכוסים על ידי תכניות פנסיה וביטוח כאמור בסעיף א' להלן, ליום 31 בדצמבר 2017 ו-2016 הסתכמו לסך של 15 מיליון ש"ח ו-12 מיליון ש"ח, בהתאמה, בכל אחת מהשנים, כמופיע בדוחות המאוחדים על המצב הכספי, תחת סעיף התחייבות בגין סיום יחסי עובד מעביד, נטו.

א. תכנית הפקדה מוגדרת

התחייבות הקבוצה בגין סיום יחסי עובד-מעביד בגין עובדיה הישראלים מחושבת על פי החוק הישראלי בנוגע לפיצויי פיטורין. התחייבות הקבוצה מכוסה ברובה על ידי הפקדות חודשיות בקרנות פיצויים, פוליסות ביטוח והתחייבות בדוחות המאוחדים על המצב הכספי. בגין מרבית עובדי הקבוצה התשלומים לקרנות הפנסיה ולחברות הביטוח פוטרות את הקבוצה ממחויבותה לעובדים בהתאם לסעיף 14 לחוק פיצויי פיטורין, התשכ"ג-1963. הסכומים שנצברו בקרנות פנסיה וחברות ביטוח אינם תחת השליטה או הניהול של הקבוצה, ובהתאם לכך גם סכומים אלה וגם ההתחייבות לפיצויי פיטורין בגינם אינם מוצגים בדוחות המאוחדים על המצב הכספי.

ב. תכנית הטבה מוגדרת

החלק של תשלומי הפיצויים שאינו מכוסה על ידי הפקדות בתוכניות הפקדה מוגדרת, כאמור לעיל, מטופל על ידי הקבוצה כתוכנית הטבה מוגדרת לפיה מוכרת התחייבות בגין הטבות עובדים ובגינה הקבוצה מפקידה סכומים בקופות מרכזיות לפיצויים ובפוליסות ביטוח מתאימות. סך ההתחייבות ליום 31 בדצמבר 2017, עומדת על סך של 27 מיליון ש"ח (2016 - 25 מיליון ש"ח). השווי ההוגן של נכסי התוכנית, היעודה לפיצויים, עומד על סך של 20 מיליון ש"ח (2016 - 20 מיליון ש"ח). ההוצאה שהוכרה במסגרת דוח רווח והפסד המאוחד לשנה שהסתיימה ב-31 בדצמבר 2017, הינה 3 מיליון ש"ח (2016 - 3 מיליון ש"ח).

ג. ליום 31 בדצמבר, 2017, התחייבות הקבוצה בגין מענקי הסתגלות לעובדים, הינה 8 מיליון ש"ח (2016 - 7 מיליון ש"ח).

ביאור 19 - הון וקרנות

הון מניות

2015	2016	2017
ש"ח	ש"ח	ש"ח
1,005,845	1,006,046	1,006,046
201	-	4,400
1,006,046	1,006,046	1,010,446

הון מניות מונפק ונפרע ליום 1 בינואר
השפעת אופציות שמומשו למניות
הון מניות מונפק ונפרע ליום 31 בדצמבר

הון המניות מורכב ממניות רגילות בערך נקוב של 0.01 ש"ח כל אחת.

ביום 31 בדצמבר 2017, הון המניות הרשום כלל סך של 300 מיליון מניות רגילות (31 בדצמבר 2016, 2015 - 300 מיליון בכל אחת מהשנים). מחזיקי המניות הרגילות זכאים לקבל דיבידנדים לכשמוכרזים.

רווח בסיסי ומדולל למניה

החישוב בגין רווח למניה בסיסי הסתמך על הרווח שאותו ניתן לייחס לבעלי המניות הרגילות ומספר המניות המשוקלל שהוחזקו וטרם נפרעו (100,589,458, 100,604,578 ו-100,654,935 בשנים 2015, 2016 ו-2017, בהתאמה). החישוב בגין רווח למניה מדולל הסתמך על הרווח שאותו ניתן לייחס לבעלי המניות הרגילות והממוצע המשוקלל של מספר המניות הרגילות ששימשו לצורך חישוב הרווח הבסיסי למניה בתוספת של 72, 93,728 ו-234,726 מניות נוספות (0.01 ש"ח ערך נקוב כל אחת) שיתווספו כתוצאה ממימוש כל האופציות במלואן לשנים שהסתיימו ביום 31 בדצמבר 2015, 2016 ו-2017 בהתאמה.

ביום 31 בדצמבר 2017, 78 אלפי כתבי אופציה (בשנים 2016 ו-2015 - 1,060 אלפי ו-616 אלפי כתבי אופציה, בהתאמה) לא נכללו בחישוב הממוצע המשוקלל של מספר המניות הרגילות (מדולל), מאחר והשפעתם אנטי-מדללת.

שווי השוק הממוצע של מניות החברה לצורך חישוב ההשפעה המדללת של כתבי האופציה למניות, התבסס על מחירי שוק מצוטטים לתקופה במהלכה היו כתבי האופציה במחזור.

דיבידנדים

בשנים 2015-2017 החברה לא שילמה דיבידנד לבעלי מניותיה.

קרן גידור

קרן הגידור כוללת את החלק האפקטיבי של השינוי הנצבר נטו בשווי ההוגן של מכשירים המגדרים את תזרים המזומנים והמתייחסים לעסקאות שגודרו וטרם התרחשו או מומשו.

ביאור 20 - תשלומים מבוססי מניות

בחודש ספטמבר 2006, אישר דירקטוריון החברה תוכנית הטבות מבוססת מניות לטובת עובדים, דירקטורים, יועצים וקבלני משנה של החברה, וכן של צדדים קשורים לחברה. תנאי תשלומי מבוססי מניות כוללים מנגנון התאמה לדיבידנד. האופציות ימומשו בנטו, ללא העברת מזומן.

בחודש מרס 2015, אישר דירקטוריון החברה תוכנית הטבות מבוססת מניות חדשה - "Share Incentive Plan 2015" לטובת עובדים, דירקטורים, יועצים וקבלני משנה של החברה וצדדים קשורים של החברה. בהתאם לתוכנית, רשאי דירקטוריון החברה להחליט על תנאי ההענקות שכוללות זהות הניצעים, כמות האופציות או המניות החסומות שיוענקו, תקופת ההבשלה ומחיר המימוש. תנאי התשלום מבוסס המניות כוללים מנגנון התאמה לדיבידנד. האופציות ימומשו במנגנון מימוש נטו, ללא העברת מזומן.

ביאור 20 - תשלומים מבוססי מניות (המשך)

מועד הענקה/ עובדים זכאים	מספר המכשירים באלפים	תנאי ההבשלה	משך החיים החוזיים של האופציות	מחיר מימוש מותאם למניה ליום 31 בדצמבר, 2017
הענקת אופציות לעובדים בכירים בחודש דצמבר 2013	234	שלושה תשלומים שווים למשך שלוש שנות עבודה	4.5 שנים	\$14.65
הענקת אופציות לעובדים בכירים בחודש אוגוסט 2015 ובחודש אוקטובר 2015	2,660	שלושה תשלומים שווים למשך שלוש שנות עבודה	4.5 שנים	25.65 ש"ח
הענקת אופציות לעובדים בכירים בחודש נובמבר 2016	63	שלושה תשלומים שווים למשך שלוש שנות עבודה	4.5 שנים	29.97 ש"ח

סך ההוצאה בגין ההטבה במהלך השנה שהסתיימה ביום 31 בדצמבר 2017, המתייחסת לאופציות שהוענקו הינה בסך של 2 מיליון ש"ח (2016- 6 מיליון ש"ח, 2015 - 3 מיליון ש"ח).

השינויים ביתרות האופציות היו כדלקמן:

ממוצע משוקלל של מחיר המימוש (דולר ארה"ב)		ממוצע משוקלל של מחיר המימוש (דולר ארה"ב)		ממוצע משוקלל של מחיר המימוש (דולר ארה"ב)		מספר האופציות	מספר האופציות	מספר האופציות	מספר האופציות
2015	מספר האופציות	2016	מספר האופציות	2017	מספר האופציות				
15.86	638,865	7.40	2,873,190	7.15	2,764,334				יתרה ליום 1 בינואר הוענקו במהלך השנה
6.69	2,660,000	7.79	63,000	-	-				חולטו במהלך השנה
19.52	(292,798)	11.43	(171,856)	11.26	(146,334)				מומשו במהלך השנה
5.67	(132,877)	-	-	7.40	(1,654,335)				יתרת האופציות ליום 31 בדצמבר
7.40	2,873,190	7.15	2,764,334	8.07	963,665				
15.13	170,190	7.89	1,020,000	12.98	106,000				יתרת האופציות שהובשלו הניתנות למימוש ליום 31 בדצמבר*

* יתרת משך החיים הממוצע המשוקלל של יתרת האופציות נכון ליום 31 בדצמבר 2017, הינה 1.9 שנים.

2015	2016	2017	שווי הוגן של אופציות והנחות:
3.5 ש"ח	6.3 ש"ח	-	שווי הוגן במועד ההענקה
23.75 ש"ח	27.75 ש"ח	-	הנחות בחישוב שווי הוגן:
25.65 ש"ח	29.97 ש"ח	-	מחיר המניה במועד ההענקה
35.9%	42.8%	-	מחיר מימוש
2.3 שנים	2.3 שנים	-	תנודתיות צפויה (ממוצע משוקלל)
0.4%	0.4%	-	משך החיים של האופציה (ממוצע משוקלל צפוי)
			שיעור ריבית חסרת סיכון

ביאור 21 - מכשירים פיננסיים

סיכון אשראי

חשיפה לסיכון אשראי

הערך בספרים של הנכסים הפיננסיים מייצג את חשיפת האשראי המרבית. החשיפה המרבית לסיכון אשראי בתאריך הדיווח, הייתה כדלקמן:

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
1,786	1,692	לקוחות, כולל יתרות לזמן ארוך
5	146	הלוואות וחיובים אחרים, כולל יתרות לזמן ארוך
282	325	השקעה בבוטוחות חוב
1,240	527	מזומנים ושויי מזומנים בבנקים
2	3	מכשירים נגזרים
<u>3,315</u>	<u>2,693</u>	

החשיפה המרבית לסיכון אשראי בגין נכסים פיננסיים למועד הדוח, לפי סווג הצד שכנגד היא:

ליום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
1,590	1,511	לקוחות קצה
196	158	משווקים ומפעילים אחרים
131	90	השקעה בבוטוחות חוב של ממשלת ישראל
151	235	השקעה בבוטוחות חוב מוסדיות
1,240	527	מזומנים ושויי מזומנים בבנקים
7	172	אחרים
<u>3,315</u>	<u>2,693</u>	

הפסדים מירידת ערך

להלן גיול נכסים פיננסיים למועד הדוח:

ירידת ערך		ברוטו		ירידת ערך		ברוטו	
2016		2017		2017		2016	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
22	3,200	12	2,580	אינם בפיגור			
62	154	53	143	פיגור עד שנה			
101	146	122	157	פיגור של מעל שנה			
<u>185</u>	<u>3,500</u>	<u>187</u>	<u>2,880</u>				

ביאור 21 - מכשירים פיננסיים (המשך)

התנועה בהפרשה לירידת ערך בגין יתרות לקוחות במשך השנה הייתה כדלקמן:

לשנה שהסתיימה ביום 31 בדצמבר		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
202	185	יתרה ליום 1 בינואר
(50)	(44)	מחיקת חובות אבודים
33	46	הוצאות חובות מסופקים
185	187	יתרה ליום 31 בדצמבר

ההפרשה המחושבת, בהתייחס ללקוחות, משמשת לרישום ירידת הערך אלא אם כן הקבוצה מעריכה שלא קיימת אפשרות שסכום החוב יוחזר. במקרה זה, הסכום שמוגדר כסכום שאינו בר-השבה נמחק ישירות כנגד יתרת הלקוח.

סיכון דילות

להלן מועדי הפירעון החוזיים של התחייבויות פיננסיות והתחייבויות לא חוזיות אחרות, כולל אומדן תשלומי ריבית. גילוי זה אינו כולל סכומים אשר לגביהם קיימים הסכמי קיזוז:

ליום 31 בדצמבר 2017

מערך בספרים	תזרים מזומנים חוזי	שנה ראשונה	שנה שנייה	שנה שלישית	ארבע עד מעל חמש שנים	
					שנה	שנה
מיליוני ש"ח						
(2,954)	(3,435)	(658)	(577)	(473)	(739)	(988)
(540)	(605)	(102)	(147)	(141)	(215)	-
(784)	(784)	(784)	-	-	-	-
(1)	(1)	(1)	-	-	-	-
(17)	(17)	(17)	-	-	-	-
(12)	(12)	-	(12)	-	-	-
<u>(4,308)</u>	<u>(4,854)</u>	<u>(1,562)</u>	<u>(736)</u>	<u>(614)</u>	<u>(954)</u>	<u>(988)</u>

אגרות חוב *
הלוואות לזמן ארוך ממוסדות פיננסיים
ספקים וזכאים אחרים
חוזי אקדמה על מטבע זר
חוזי אקדמה על מדד המחירים לצרכן
התחייבויות אחרות לזמן ארוך

* כולל ריבית לשלם בגין אג"ח.

ליום 31 בדצמבר 2016

מערך בספרים	תזרים מזומנים חוזי	שנה ראשונה	שנה שנייה	שנה שלישית	ארבע עד מעל חמש שנים	
					שנה	שנה
מיליוני ש"ח						
(3,815)	(4,448)	(1,014)	(657)	(577)	(847)	(1,353)
(340)	(392)	(16)	(92)	(89)	(166)	(29)
(803)	(803)	(803)	-	-	-	-
(17)	(17)	(2)	(15)	-	-	-
(13)	(13)	(2)	-	(11)	-	-
<u>(4,988)</u>	<u>(5,673)</u>	<u>(1,837)</u>	<u>(764)</u>	<u>(677)</u>	<u>(1,013)</u>	<u>(1,382)</u>

אגרות חוב *
הלוואות לזמן ארוך ממוסדות פיננסיים
ספקים וזכאים אחרים
חוזי אקדמה על מדד המחירים לצרכן
התחייבויות אחרות לזמן ארוך

* כולל ריבית לשלם בגין אג"ח.

ביאור 21 - מכשירים פיננסיים (המשך)

סיכון מטבע ומדד המחירים לצרכן

חשיפת הקבוצה לסיכון מטבע חוץ ולמדד המחירים לצרכן הינה כדלקמן:

31 בדצמבר 2016			31 בדצמבר 2017			
לא צמוד	צמוד מדד מחירים לצרכן	מט"ח או צמוד מט"ח (בעיקר דולר ארה"ב)	לא צמוד	צמוד מדד מחירים לצרכן	מט"ח או צמוד מט"ח (בעיקר דולר ארה"ב)	
מיליוני ש"ח			מיליוני ש"ח			
1,228	-	12	498	-	29	נכסים שוטפים
141	141	2	181	135	13	מזומנים ושווי מזומנים
1,236	-	89	1,219	-	61	השקעות שוטפות, כולל נגזרים
4	-	-	8	-	-	לקוחות
						חייבים ויתרות חובה
461	1	-	495	54	-	נכסים לזמן ארוך
						חייבים ויתרות חובה לזמן ארוך
(221)	(642)	-	(297)	(322)	-	התחייבויות שוטפות
(493)	-	(182)	(537)	-	(115)	חלויות שוטפות של אג"ח ושל הלוואות לזמן ארוך ממוסדות פיננסיים
(167)	(49)	-	(161)	(42)	(1)	ספקים והוצאות לשלם
						זכאים ויתרות זכות, כולל נגזרים
(340)	-	-	(462)	-	-	התחייבויות לזמן ארוך
(1,282)	(1,584)	-	(1,071)	(1,288)	-	הלוואות ממוסדות פיננסיים
(10)	(15)	(3)	(11)	-	(1)	אגרות חוב
557	(2,148)	(82)	(138)	(1,463)	(14)	התחייבויות אחרות לזמן ארוך

החשיפה של הקבוצה להצמדה וסיכון מטבע חוץ היא בגין מכשירים נגזרים היא כדלקמן:

31 בדצמבר 2017				
שווי הוגן	ערך נקוב	מטבע/הצמדה לשלם	מטבע/הצמדה לקבל	
מיליוני ש"ח				
(1)	105	ש"ח	דולר ארה"ב	מכשירים שאינם משמשים לגידור
(17)	500	ש"ח	מדד המחירים לצרכן	חוזי אקדמה על שערי חליפין
1	(105)	דולר ארה"ב	ש"ח	חוזי אקדמה על המדד
2	16	ש"ח	דולר ארה"ב	אופציות מכר על מטבע חוץ
				נגזרים משובצים בחוזי שכירות

ביאור 21 - מכשירים פיננסיים (המשך)

31 בדצמבר 2016			
שווי הוגן מיליוני ש"ח	ערך נקוב	מטבע/הצמדה	
		לשלם	מטבע/הצמדה לקבל
1	95	ש"ח	דולר ארה"ב
(17)	800	ש"ח	מדד המחירים לצרכן
1	(95)	דולר ארה"ב	ש"ח

מכשירים שאינם משמשים לגידור
חוזי אקדמה על שערי חליפין
חוזי אקדמה על המדד
אופציות מכר על מטבע חוץ

ניתוח רגישות

השינוי במדד המחירים לצרכן לימים 31 בדצמבר 2017 ו-2016, היה מגדיל (מקטין) את ההון העצמי ואת הרווח או ההפסד בסכומים המוצגים להלן. ניתוח זה נעשה בהנחה שכל שאר המשתנים, ובמיוחד שעורי הריבית, נשארו קבועים. הניתוח לגבי שנת 2016 נעשה בהתאם לאותו בסיס.

רווח נקי מיליוני ש"ח	הון עצמי מיליוני ש"ח	שינוי
(9)	(9)	2.0%
(2)	(2)	1.0%
-	-	(1.0%)
-	-	(2.0%)
(13)	(13)	2.0%
(4)	(4)	1.0%
3	3	(1.0%)
6	6	(2.0%)

31 בדצמבר 2017

עליה במדד המחירים לצרכן
עליה במדד המחירים לצרכן
ירידה במדד המחירים לצרכן
ירידה במדד המחירים לצרכן

31 בדצמבר 2016

עליה במדד המחירים לצרכן
עליה במדד המחירים לצרכן
ירידה במדד המחירים לצרכן
ירידה במדד המחירים לצרכן

רגישות השינוי בשער חליפין הינה לא מהותית לימים 31 בדצמבר 2017 ו-2016.

ביאור 21 - מכשירים פיננסיים (המשך)

סיכון שיעורי ריבית

סוג ריבית

להלן פירוט בדבר סוג הריבית של מכשירים פיננסיים נושאי ריבית של הקבוצה לתאריך הדיווח לא כולל נגזרים:

ערך בספרים		
2016	2017	
מיליוני ש"ח	מיליוני ש"ח	
845	679	מכשירים בריבית קבועה
(4,069)	(3,440)	נכסים פיננסיים
(3,224)	(2,761)	התחייבויות פיננסיות
500	221	מכשירים בריבית משתנה
		נכסים פיננסיים

ניתוח רגישות השווי ההוגן לגבי מכשירים בריבית קבועה

השינוי של הריבית לסוף תקופת הדיווח היה מגדיל (מקטין) את ההון העצמי והרווח או ההפסד בסכומים המוצגים להלן. ניתוח זה מתבסס על ההנחה כי כל המשתנים האחרים, ובמיוחד שערי מטבע זר, נשארים קבועים.

רווח או הפסד				הון עצמי			
0.5% קיטון	0.5% גידול	1.0% קיטון	1.0% גידול	0.5% קיטון	0.5% גידול	1.0% קיטון	1.0% גידול
מיליוני ש"ח				מיליוני ש"ח			
5	(5)	9	(9)	5	(5)	9	(9)

31 בדצמבר 2017
רגישות השווי ההוגן (נטו)

רווח או הפסד				הון עצמי			
0.5% קיטון	0.5% גידול	1.0% קיטון	1.0% גידול	0.5% קיטון	0.5% גידול	1.0% קיטון	1.0% גידול
מיליוני ש"ח				מיליוני ש"ח			
4	(4)	7	(7)	4	(4)	7	(7)

31 בדצמבר 2016
רגישות השווי ההוגן (נטו)

ניתוח רגישות תזרים המזומנים לגבי מכשירים בריבית משתנה

שינוי של 1% בשיעורי הריבית לסוף תקופת הדיווח, היה מגדיל (מקטין) את ההון העצמי ואת הרווח והפסד בסכומים שאינם מהותיים.

ביאור 21 - מכשירים פיננסיים (המשך)

שווי הוגן

1. מכשירים פיננסיים שנמדדים בשווי הוגן לצורכי גילוי בלבד

הערך בספרים של נכסים והתחייבויות מסוימים, כולל מזומנים ושווי מזומנים, לקוחות, חייבים ויתרות חובה, השקעות שוטפות, כולל נגזרים, ספקים וזכאים ויתרות זכות, כולל נגזרים והתחייבויות לזמן ארוך, שווה או קרוב לשווי ההוגן שלהם.

השווי ההוגן של ההתחייבויות הפיננסיות שנותרו וכן, ערךן בספרים כפי שמוצגים בדוחות המאוחדים על המצב הכספי הינם כדלקמן:

31 בדצמבר 2016		31 בדצמבר 2017		
שווי הוגן*	ערך בספרים	שווי הוגן*	ערך בספרים	
מיליוני ש"ח		מיליוני ש"ח		
(4,112)	(3,815)	(3,288)	(2,954)	אגרות חוב, כולל חלויות שוטפות וריבית לשלם
(350)	(340)	(574)	(540)	הלוואות לזמן ארוך ממוסדות פיננסיים, כולל חלויות שוטפות וריבית לשלם

* השווי ההוגן ליום 31 בדצמבר 2017 כולל ריבית וקרן בסכום כולל של כ-418 מיליון ש"ח, ששולמו בחודש ינואר 2018, לאחר סוף תקופת הדיווח. השווי ההוגן ליום 31 בדצמבר 2016 כולל ריבית וקרן בסכום כולל של כ-592 מיליון ש"ח, ששולמו בחודש ינואר 2017.

השווי ההוגן של אגרות חוב נסחרות נקבע תוך התייחסות למחיר הרכישה המצוטט שלהן בסגירת המסחר (Quoted closing asking price), במועד הדיווח (רמה 1), בתוספת סכומי קרן וריבית, ששולמו בחודש העוקב לאחר סוף תקופת הדיווח.

2. היררכיית שווי הוגן של מכשירים פיננסיים הנמדדים בשווי הוגן

הטבלה להלן מציגה ניתוח של המכשירים הפיננסיים הנמדדים בשווי הוגן תוך שימוש בשיטת הערכה, לרמות השונות:

ליום 31 בדצמבר 2017				
רמה 1	רמה 2	רמה 3	סה"כ	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
361	-	-	361	נכסים פיננסיים בשווי הוגן דרך רווח או הפסד
-	3	-	3	השקעות שוטפות בבטוחות חוב נגזרים
361	3	-	364	סה"כ נכסים
-	(18)	-	(18)	התחייבויות פיננסיות בשווי הוגן דרך רווח או הפסד
-	(18)	-	(18)	נגזרים
-	(18)	-	(18)	סה"כ התחייבויות

לא היה מעבר במהלך השנה בין רמה 1 לרמה 2.

ביאור 21 - מכשירים פיננסיים (המשך)

שווי הוגן (המשך)

ליום 31 בדצמבר 2016			
סה"כ	רמה 3	רמה 2	רמה 1
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
282	-	-	282
2	-	2	-
<u>284</u>	<u>-</u>	<u>2</u>	<u>282</u>
(17)	-	(17)	-
<u>(17)</u>	<u>-</u>	<u>(17)</u>	<u>-</u>

נכסים פיננסיים בשווי הוגן דרך רווח או הפסד
השקעות שוטפות בבטוחות חוב
נגזרים
סה"כ נכסים

התחייבויות פיננסיות בשווי הוגן דרך רווח או הפסד
נגזרים
סה"כ התחייבויות

3. נתונים בדבר מדידות שווי הוגן של מכשירים פיננסיים ברמה 2

מכשיר פיננסי טכניקות הערכה לקביעת השווי ההוגן

השווי ההוגן נאמד על בסיס היוון ההפרש בין מחיר ה-Forward הנקוב בחוזה לבין מחיר ה-Forward הנוכחי בגין יתרת התקופה של החוזה עד לפדיון, תוך שימוש בריביות שוק מתאימות למכשירים דומים, כולל ההתאמות הנדרשות בגין סיכוני האשראי של הצדדים.

חוזי אקדמה (Forward)

השווי ההוגן נקבע בהתאם למודל בלק ושולס (Black-Scholes formula)

אופציות על מטבע חוץ

4. קיזוז נכסים פיננסיים והתחייבויות פיננסיות

הטבלה להלן מציגה את הערך בספרים של מכשירים פיננסיים שהוכרו, אשר קוזזו בדוח על המצב הכספי:

ליום 31 בדצמבר 2017		
סכומים נטו של נכסים (התחייבויות) פיננסיים המוצגים בדוחות המאוחדים על המצב הכספי מיליוני ש"ח	סכומים ברוטו של נכסים (התחייבויות) פיננסיים שהוכרו וקוזזו בדוחות המאוחדים על המצב הכספי מיליוני ש"ח	סכומים ברוטו של נכסים (התחייבויות) פיננסיים שהוכרו מיליוני ש"ח
<u>47</u>	<u>(123)</u>	<u>170</u>
<u>(26)</u>	<u>123</u>	<u>(149)</u>

ביאור

נכסים פיננסיים לקוחות

9

התחייבויות פיננסיות ספקים והוצאות לשלם

13

ביאור 21 - מכשירים פיננסיים (המשך)

ליום 31 בדצמבר 2016			ביאור	
סכומים נטו של נכסים (התחייבויות) פיננסיים המוצגים בדוחות המאוחדים על המצב הכספי מיליוני ש"ח	סכומים ברוטו של נכסים (התחייבויות) פיננסיים שהוכרו וקודזו בדוחות המאוחדים על המצב הכספי מיליוני ש"ח	סכומים ברוטו של נכסים (התחייבויות) פיננסיים שהוכרו מיליוני ש"ח		
65	(159)	224	9	נכסים פיננסיים לקוחות
(24)	159	(183)	13	התחייבויות פיננסיות ספקים והוצאות לשלם

סיכון מחיר מניות - ניתוח רגישות

השקעות הקבוצה בניירות ערך כוללות השקעות במכשירים הוניים. ניתוח הרגישות שלהלן מציג את ההשפעה של שינוי במחירי המכשירים הונוניים על השווי ההוגן של ניירות הערך המוחזקים על ידי הקבוצה, בהנחה שכל יתר המשתנים נותרו ללא שינוי.

שינוי במחירי המניות היה מגדיל (מקטין) את הרווח וההפסד ואת ההון בסכומים הבאים (לאחר מס):

ליום 31 בדצמבר 2017		
רווח והפסד	הון	
מיליוני ש"ח		
1	1	עליה של 5 %
3	3	עליה של 10 %
(1)	(1)	ירידה של 5 %
(3)	(3)	ירידה של 10 %

ביאור 22 - הכנסות ממכירות ושירותים

לפי סוגי הכנסה:

לשנה שהסתיימה ביום 31 בדצמבר			הכנסות ממכירה של ציוד קצה
2015	2016	2017	
מיליוני ש"ח			
1,048	994	952	
2,121	2,025	1,777	הכנסות משירותים
866	871	1,004	הכנסות משירותי תקשורת סלולרית
145	137	138	הכנסות משירותי ניחת
3,132	3,033	2,919	הכנסות משירותים אחרים
4,180	4,027	3,871	סה"כ הכנסות משירותים
			סה"כ הכנסות

ביאור 23 - עלות המכירות והשירותים

הרכב:

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
763	674	645	לפי מקורות הכנסה
2,000	2,028	2,035	עלות ציוד קצה
<u>2,763</u>	<u>2,702</u>	<u>2,680</u>	עלות מתן השירותים
763	674	645	לפי מרכיבים
			עלות ציוד קצה
332	321	281	דמי שכירות והוצאות נלוות
265	241	224	משכורות והוצאות נלוות אחרות
732	732	767	תשלומים למפעילי תקשורת
143	168	212	עלות שירותי תוכן וערך מוסף
381	396	412	פחת והפחתות
96	93	86	תמלוגים ואגרות
51	77	53	אחרות
<u>2,000</u>	<u>2,028</u>	<u>2,035</u>	סה"כ עלות בגין השירותים
<u>2,763</u>	<u>2,702</u>	<u>2,680</u>	

ביאור 24 - הוצאות מכירה ושיווק

הרכב:

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
278	257	241	משכורות והוצאות נלוות
196	179	88	עמלות
26	44	36	פרסום ויחסי ציבור
38	20	33	פחת והפחתות
82	74	81	אחרות
<u>620</u>	<u>574</u>	<u>479</u>	

ביאור 25 - הוצאות הנהלה וכלליות

ההרכב:

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
114	123	124	משכורות והוצאות נלוות
143	118	110	פחת והפחתות
59	55	51	דמי שכירות ואחזקה
51	39	36	עיבוד נתונים ושירותים מקצועיים
32	33	46	חובות מסופקים
66	52	59	אחרות
<u>465</u>	<u>420</u>	<u>426</u>	

ביאור 26 - הכנסות (הוצאות) אחרות, נטו

הכנסות אחרות, נטו, בשנת 2017 כוללות בעיקר רווח הון בסך כ-10 מיליון ש"ח בגין מכירת חברת בת בעקיפין. למידע נוסף ראה ביאור 7 ב, בדבר מכירת חברת בת בעקיפין של החברה.

ההוצאות האחרות, נטו, בשנים 2016 ו-2015 כוללות בעיקר הוצאות בגין תוכניות לפרישה מרצון של עובדים בסך של כ-13 מיליון ש"ח ו-25 מיליון ש"ח, בהתאמה.

ביאור 27 - הכנסות והוצאות מימון

ההרכב:

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
47	38	31	הכנסות ריבית בגין עסקאות מכירה בתשלומים שינוי נטו בשווי ההוגן של נכסים פיננסיים שנמדדים לפי שווי הוגן דרך רווח או הפסד אחרות
5	6	14	
3	2	7	
<u>55</u>	<u>46</u>	<u>52</u>	הכנסות מימון
(169)	(157)	(147)	הוצאות הפרשי הצמדה למדד והוצאות ריבית בגין התחייבויות לזמן ארוך
(32)	-	(8)	שינוי נטו בשווי ההוגן של נגזרים
(22)	(26)	(32)	הוצאות מהפחתת ניכיון אחרות
(9)	(13)	(9)	
<u>(232)</u>	<u>(196)</u>	<u>(196)</u>	הוצאות מימון
<u>(177)</u>	<u>(150)</u>	<u>(144)</u>	הוצאות מימון, נטו

ביאור 28 - מיסים על ההכנסה

א. פרטים בדבר סביבת המס בה פועלת הקבוצה

שיעור מס חברות

להלן שיעורי המס הרלוונטיים לחברה בשנים 2015-2017:
2015 - 26.5%
2016 - 25%
2017 - 24%

ביום 4 בינואר 2016, אישרה הכנסת את החוק לתיקון פקודת מס הכנסה (מס' 216), התשע"ו - 2016, אשר קבע, בין היתר, הורדת שיעור מס חברות, החל מיום 1 בינואר 2016 ואילך בשיעור של 1.5% כך שיעמוד על 25%. כמו כן, ביום 22 בדצמבר 2016, אישרה הכנסת את חוק ההתייעלות הכלכלית (תיקוני חקיקה להשגת יעדי התקציב 2017 ו-2018) התשע"ז-2016, אשר קבע, בין היתר, את הורדת שיעור מס חברות משיעור של 25% ל-23% בשתי פעימות. הפעימה הראשונה לשיעור של 24% החל מינואר 2017 והפעימה השנייה לשיעור של 23% החל מינואר 2018 ואילך.

כתוצאה מהאמור, יתרות המיסים הנדחים ליום 31 בדצמבר 2017, חושבו בהתאם לשיעור המס החדש של 23%, שיעור המס הצפוי לחול במועד ההיפוך.

המיסים השוטפים לתקופות המדווחות מחושבים בהתאם לשיעורי המס המוצגים לעיל.

ב. מרכיבי הוצאות (הכנסות) מיסים על הכנסה

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
45	35	27	הוצאות (הכנסות) מיסים שוטפים
-	(27)	(1)	בגין השנה השוטפת
45	8	26	התאמות בגין שנים קודמות, נטו
(9)	21	14	הוצאות (הכנסות) מיסים נדחים
-	(19)	-	יצירה והיפוך של הפרשים זמניים
(9)	2	14	שינוי בשיעור המס
36	10	40	סך הוצאות מיסים על הכנסה

ג. מיסים על הכנסה בגין מרכיבי רווח (הפסד) כולל אחר

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
(2)	1	1	לפני מס
1	(1)	-	הוצאות מס (הטבת מס)
(1)	-	1	נטו ממס

ביאור 28 - מיסים על ההכנסה (המשך)

ד. התאמה בין המס התיאורטי על הרווח לפני מיסים על הכנסה לבין הוצאות המיסים

לשנה שהסתיימה ביום 31 בדצמבר			
2015	2016	2017	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
133	160	153	רווח לפני מיסים על ההכנסה
26.5%	25.0%	24.0%	שיעור המס העיקרי של הקבוצה
35	40	37	מס מחושב לפי שיעור המס העיקרי של הקבוצה
5	4	5	תוספת (חיסכון) בחבות המס בגין: הוצאות לא מוכרות
-	(27)	(1)	מיסים בגין שנים קודמות
-	(19)	-	השפעת שינוי בשיעור מס הכנסות פטורות
(1)	-	-	הפרשים אחרים
(3)	12	(1)	הוצאות מיסים על ההכנסה
<u>36</u>	<u>10</u>	<u>40</u>	

ה. נכסי והתחייבויות מיסים נדחים

(1) נכסי והתחייבויות מיסים נדחים שהוכרו

המיסים הנדחים מחושבים לפי שיעור מס הצפוי לחול במועד ההיפוך כמפורט לעיל.

התנועה בנכסי והתחייבויות המיסים הנדחים מיוחסת לפריטים הבאים:

סה"כ	אחרים	רכוש קבוע ונכסים בלתי מוחשיים	הפרשה לחובות מסופקים	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
(117)	24	(184)	43	יתרת נכס (התחייבות) מס נדחה ליום 1 בינואר 2017
(14)	(1)	(13)	-	שינויים אשר נזקפו לרווח והפסד
<u>(131)</u>	<u>23</u>	<u>(197)</u>	<u>43</u>	יתרת נכס (התחייבות) מס נדחה ליום 31 בדצמבר 2017
74	26	5	43	נכס מס נדחה
(74)				יתרות הניתנות לקיזוז
-				נכס מס נדחה בדוחות המאוחדים על המצב הכספי ליום 31 בדצמבר 2017
(205)	(3)	(202)	-	התחייבות מס נדחה
74				יתרות הניתנות לקיזוז
<u>(131)</u>				התחייבות מס נדחה בדוחות המאוחדים על המצב הכספי ליום 31 בדצמבר 2017

ביאור 28 - מיסים על ההכנסה (המשך)

ה. נכסי והתחייבויות מיסים נדחים (המשך)

(1) נכסי והתחייבויות מיסים נדחים שהוכרו (המשך)

סה"כ	אחרים	ניכויים והפסדים להעברה לצרכי מס	עסקאות הגנה	רכוש קבוע ונכסים בלתי מוחשיים	הפרשה לחובות מסופקים	
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח	
(114)	25	8	1	(201)	53	יתרת נכס (התחייבות) מס נדחה ליום 1 בינואר 2016
(2)	-	(8)	(1)	17	(10)	שינויים אשר נזקפו לרווח והפסד
(1)	(1)	-	-	-	-	שינויים אשר נזקפו לרווח כולל אחר
(117)	24	-	-	(184)	43	יתרת נכס (התחייבות) מס נדחה ליום 31 בדצמבר 2016
93	27	-	-	23	43	נכס מס נדחה
(92)						יתרות הניתנות לקיזוז
1						נכס מס נדחה בדוחות המאוחדים על המצב הכספי ליום 31 בדצמבר 2016
(210)	(3)	-	-	(207)	-	התחייבות מס נדחה
92						יתרות הניתנות לקיזוז
(118)						התחייבות מס נדחה בדוחות המאוחדים על המצב הכספי ליום 31 בדצמבר 2016

(2) התחייבויות מיסים נדחים שלא הוכרו

ליום 31 בדצמבר 2017 ו-2016, התחייבות מיסים נדחים המתייחסים להשקעה בחברה בת, לא הוכרה מאחר וההחלטה האם למכור השקעה זו נתונה בידי הקבוצה, ובכוונתה שלא לממשה בעתיד הנראה לעין.

ו. שומות מס

שומות מס סופיות נתקבלו ע"י החברה עד וכולל השנה שהסתיימה ב- 31 לדצמבר 2013 (שנת המס 2013).

שומות מס סופיות נתקבלו ע"י חברת 013 נטוויז'ן בע"מ עד וכולל השנה שהסתיימה ב- 31 לדצמבר 2015 (שנת המס 2015).

ביאור 29 - חכירות תפעוליות

דמי השכירות השנתיים החזויים, שאינם ניתנים לביטול, הינם כדלקמן:

31 בדצמבר 2016	31 בדצמבר 2017	עד שנה משנה ועד חמש שנים מעל חמש שנים
מיליוני ש"ח	מיליוני ש"ח	
274	275	
570	573	
103	70	
947	918	

במהלך השנה שהסתיימה ביום 31 בדצמבר 2017, הוכר סך של 280 מיליון ש"ח כהוצאות בגין חכירות תפעוליות בדוח רווח והפסד (שנת 2016 ו-2015 סך של 286 מיליון ש"ח ו-285 מיליון ש"ח, בהתאמה).

הסכמי שכירות ושירותים עיקריים:

- בנייני משרדים ומחסנים- הסכמי שכירות לתקופות של עד כ- 14 שנים.
- תחנות מיתוג- הסכמים לשכירת תחנות מיתוג לתקופות של עד כ- 18 שנים.
- אתרי תא- הסכמים לשכירת אתרי תא לתקופות של עד כ- 21 שנים.
- מרכזי שירות, חנויות קמעונאיות ודוכנים- הסכמים לשכירות של מרכזי שירות והתקנות, ודוכנים לתקופות של עד כ- 13 שנים.
- שכירת רכבים באמצעות ליסינג תפעולי לתקופה של 3 שנים.

ביאור 30 - התקשרויות

א. לקבוצה התחייבויות בקשר לרישיון שהוענק לה בשנת 1994 לרבות:

- לא למשכן נכס מהנכסים המשמשים לביצוע הרישיון ללא הסכמה מראש של משרד התקשורת.
- ההון העצמי המשותף של כלל בעלי מניות החברה, יחד עם ההון העצמי של החברה, לא יפחת מ-200 מיליון דולר ארה"ב. לעניין זה לא יובא בחשבון בעל מניות המחזיק פחות מ-10% מהזכויות בהון החברה.

הקבוצה עומדת בהתחייבויותיה הנ"ל.

ב. נכון ליום 31 בדצמבר 2017, לקבוצה התחייבויות לרכישת ציוד לרשתות התקשורת, ציוד קצה, תחזוקת מערכות ותוכנות, ותוכן ושירותים גלויים, בסך של כ- 859 מיליון ש"ח.

ג. בין השנים 2003 ו- 2016, נטוויז'ן התקשרה במספר הסכמים עם ט.י. ספארקל אירלנד תקשורת בע"מ (בעבר - מדיטרניאן נאוטילוס בע"מ) ו-ט.י. ספארקל (ישראל) בע"מ (בעבר - מדיטרניאן נאוטילוס (ישראל) בע"מ) (להלן ביחד - "ט.י. ספארקל"). לרכישת זכויות שימוש (IRU) בקיבולות תקשורת מסוימות בקווי התקשורת של ט.י. ספארקל וכן שירותי תחזוקה ותפעול בקשר עם קווי התקשורת האמורים. במהלך השנים האחרונות נטוויז'ן הגדילה את הקיבולת הנרכשת עבור מחירים נמוכים משמעותית, וכן הפחיתה עלויות תחזוקה. תקופת ההסכם בנוגע לקיבולת שנרכשה מ-ט.י. ספארקל היא עד מאי 2032. לנטוויז'ן קיימת האופציה לסיים את ההסכמים בנוגע לחלקים מהקיבולת ב-2022 ו-2027. יתרת ההתחייבות מכלל ההסכמים הקיימים נכון ליום 31 בדצמבר 2017, הינה 92 מיליון ש"ח.

ד. בחודשים מרץ ואפריל 2017, הסכמי שיתוף הרשתות של החברה - הסכם שיתוף רשת דור 4 ושירותי אירוח לרשת דור 2 ו-3 עם מרתון 018 אקספון בע"מ ("אקספון"), אשר טרם החלה לפעול בשוק הסלולר, והסכם שיתוף רשתות דור 3 ו-4 ושירותי אירוח לרשת דור 2 עם גולן טלקום בע"מ, או גולן, (אשר נחתם במקור עם אלקטרה ואומץ על ידי גולן לאחר שנרכשה על ידי אלקטרה), והסכם המשלב בין הסדרי שיתוף רשת דור 4 של הסכם אקספון והסכם גולן להסכם אחד בין שלושת הצדדים - נכנסו לתוקף.

ביאור 30 - התקשרויות (המשך)

ד. (המשך)

עיקרי הסכמי השיתוף הינם:

- שיתוף רשתות - הצדדים ישתפו פעולה בפיתוח רשתות דור 3 ו-4 המשותפות (בהתאמה), שיעשו שימוש בתדרים הרלבנטיים של הצדדים, שתופעלנה על-ידי תאגידי נפרדים, חדשים שיוקמו, או התאגידיים המשותפים, שהינם בבעלות שווה של הצדדים המשתפים. כל אחד מהחברה והצד המשותף/צדדים משתפים יחזיקו ברכיבים האקטיביים ברשת המשותפת בחלקים שווים, והם יעניקו אחד לשני ולתאגידיים המשותפים זכויות שימוש בלתי הדירות, או IRU, ברכיבים האקטיביים של הרשת המשותפת. לצורך כך, הצד המשותף/הצדדים המשתפים ירכשו ויחזיקו חלקים שווים מהרכיבים האקטיביים של הרשת המשותפת שבבעלות סלקום לפני מועד מסוים. השקעות שוטפות עתידיות ברכיבים האקטיביים כאמור, יתחלקו בין הצדדים בחלקים שווים. כל צד ירכוש ויפעיל ליבת רשת עצמאית. בנוסף, החברה תספק לצדדים המשתפים ולתאגידיים המשותפים IRU לרכיבים הפאסיביים של הרשת המשותפת. החברה תספק שירותים לתאגידיים המשותפים כקבלן משנה.

- שירותי אירוח - החברה תספק לאקספון שירותי אירוח ביחס לרשתות דור 2 ו-3 של החברה ולגולן שירותי אירוח ביחס לרשת דור 2 של החברה.

- תקופת ההסכם - ההסכמים הינם לתקופה של 10 שנים (הסכם אקספון - החל מהמוקדם מבין השקה מסחרית של שירותי סולר על ידי אקספון או 12 חודשים לאחר קבלת אישורים רגולטורים להסכם ("המועד הקובע של הסכם אקספון")), ויורכזו לתקופות נוספות, אלא אם אחד הצדדים יודיע אחרת. סיום הסכם גולן לפני חלוף 10 השנים הראשונות עקב הפרה של גולן, תזכה את החברה בפיצוי מוסכם של 600 מיליון ש"ח בצרוף מע"מ.

- תמורה - התמורה השנתית הממוצעת שתקבל החברה תחת הסכם גולן במהלך תקופת ההסכם (שתחל בתשלומים נמוכים יותר שיעלו במהלך תקופת ההסכם) צפויה להיות כ- 220-210 מיליון ש"ח בתוספת מע"מ, בהתאם לכמות המנויים של גולן והשימוש שלהם ברשת המשותפת וברשת דור 2 של החברה. התמורה האמורה כוללת את הרכיבים הבאים:

- חלקה של גולן ברכיבים האקטיביים ברשת דור 3 ו-4 הקיימת שבבעלות החברה והשקעה מינימלית עתידית של גולן ברכיבים האקטיביים ברשת המשותפת.
- IRU לרכיבים הפאסיביים.
- עלויות תפעול - עלויות התפעול של הרשת המשותפת ושל רשת דור 2 (אקטיבי ופאסיבי) יכללו רכיב עלות קבועה בו יישאו הצדדים בחלקים שווים, בכפוף להסדרי הנחה מסוימים התלויים בכמות המנויים של גולן, ורכיב עלות משתנה שישולם ע"י הצדדים בהתאם לשימוש היחסי בדאטה של שני הצדדים על-ידי מנוייהם.

התמורה לחברה תחת הסכם אקספון כוללת הסדרים דומים בעיקרם (בשינויים הנדרשים להסכם השיתוף והאירוח שלה) אך אקספון תהיה זכאית להנחה שלפיה, התשלומים האמורים עבור IRU לרכיבים הפאסיביים וחלקה בעלויות התפעול, יוחלפו בתקופה של עד 5 שנים מהמועד הקובע של הסכם אקספון, בתשלום חודשי למנוי של 25 ש"ח בשנה הראשונה, 27.5 ש"ח בשנה השנייה ו- 30 ש"ח לאחר מכן, בתוספת מע"מ, אך בכל מקרה לא פחות מסכומי מינימום שנתיים מסוימים (בטווח שבין 20 מיליון ש"ח בשנה הראשונה ו- 110 מיליון ש"ח בשנה החמישית).

ההסכמים כוללים תנאים מקובלים כמו גם הסדרים מסוימים ביחס להיפרדות הצדדים ולהוספת צד נוסף לרשת המשותפת. בנוסף לתנאי לעילות סיום הסכם מקובלות, אקספון רשאית לסיים את ההסכם באמצעות הודעה מראש ובכתב אם תחליט לסיים את פעילותה בשוק הסולר בישראל.

הסכם גולן (המחליף את הסכם שירותי הנדידה הפנים הארצית הקודם) כולל גם את ההסדרים הבאים:

- הלוואה - במועד השלמת רכישת גולן על-ידי אלקטרה, הלוואה של החברה לגולן בסכום של 130 מיליון ש"ח לתקופה של 10 שנים שתפרע ב- 6 תשלומים חצי שנתיים שווים החל מהשנה השמינית בתקופת ההסכם (ריבית והפרשי הצמדה שיצברו, ישולמו החל מהשנה השישית). הלוואה מובטחת בשעבוד צף מדרגה שניה על נכסי וזכויות גולן (למעט חריגים מסוימים) או בטוחה שוות ערך אחרת. בחודש אפריל 2017, הועמדה הלוואה האמורה בסך של 130 מיליון ש"ח לגולן, בהתאם לתנאי ההסכם האמור.

- יישוב של הפרשי תשלומי העבר בגין שירותי נדידה פנים ארצית שדווחו בעבר.

ביאור 30 - התקשרויות (המשך)

ד. (המשך)

בהתאם לתנאי הסכם גולן, חלק מהתמורה מוכר כהכנסות וחלקה מוכר כהקטנת עלויות תפעול. כאמור לעיל, הסכם גולן כולל מספר מחויבויות ביצוע לצרכי הכרה בהכנסה:

- IRU לגולן ברכיבים הפאסיביים.
- IRU לגולן בגין חלקה ברכיבים האקטיביים הקיימים ברשת דור 3 ו-4 המשותפת ושירותי אירוח לגולן ברשת דור 2.
- שירותי תמסורת לגולן.

כמו כן, גולן תשלם לחברה בגין השתתפות בעלויות תפעול של רשת דור 3 ו-4 המשותפת ורשת דור 2 ובגין השקעות שוטפות עתידיות ברשת המשותפת, על פי מנגנון שנקבע בהסכם.

ה. בחודש אוקטובר 2016, התקשרה החברה עם Apple Sales International בהסכם לרכישת והפצת מכשירי iPhone בישראל. תחת תנאי ההסכם, החברה התחייבה לרכוש כמות מינימלית של מוצרי iPhone במשך תקופה של 3 שנים, שצפויה להוות חלק משמעותי מסך מכירות המכשירים הסלולריים על ידי החברה באותה תקופה.

ו. בחודש מאי 2016, החברה התקשרה במספר הסכמים המיועדים לספק לחברה פתרון מקיף של מערכת ניהול לקוחות בענן, על בסיס 'תוכנה כשירות' בענן, או SAAS, שכאשר יושלם יחליף בהדרגה את מערכות ניהול הלקוחות הקיימות של החברה בפתרון מערכת ניהול לקוחות אחת שתשרת את הסגמנטים הנייד והנייח של החברה. הסכמים אלו כוללים את ההסכמים העיקריים הבאים:

הסכם עם EMEA Limited, Salesforce.com או Salesforce, לאספקת פלטפורמת מערכת ניהול לקוחות SAAS של Salesforce, לרבות מגוון מוצרים ושירותים וכן שירותי תמיכה במהלך תקופת ההסכם. תוקף ההסכם הוא עד חודש אוגוסט 2019, והחברה רשאית לסיימו בחודש אפריל 2018. לחברה יש גם האפשרות לחדש את ההסכם למשך שתי תקופות נוספות של 5 שנים כל אחת תחת תנאים מסוימים.

שני הסכמים עם Vlocity UK Ltd, או Vlocity, כדלקמן: (1) הסכם לאספקת פתרון מערכת ניהול לקוחות תקשורת SAAS של Vlocity, על בסיס פלטפורמת Salesforce, לרבות תמיכה בשירותים אלו במהלך תקופת ההסכם. תוקף ההסכם הינו עד חודש נובמבר 2019, והחברה רשאית לסיימו בחודש אפריל 2018; ו-(2) הסכם לפיתוח והתאמה של פתרונות מערכות ניהול הלקוחות של Salesforce ו-Vlocity. תוקף ההסכם הינו עד להשלמת הפרויקט, והחברה רשאית לסיימו בכפוף למתן הודעה מוקדמת בכתב.

ביאור 31 - התחייבויות תלויות

במהלך העסקים הרגיל הקבוצה מעורבת בתביעות משפטיות שונות נגדה. העלויות שעשויות לנבוע מתביעות אלו, מופרשות רק כאשר יותר סביר מאשר לא שתיווצר חבות הנובעת מאירועי העבר, ושסכום החבות ניתן לכימות או הערכה בטווח סביר. סכום הפרשות שבוצעו מבוסס על הערכת מידת הסיכון בכל אחת מהתביעות, כאשר אירועים המתרחשים במהלך ההתדיינות המשפטית עשויים לחייב ביצוע מחדש של הערכת סיכון זה. הערכת הקבוצה בדבר הסיכון מתבססת הן על חוות דעת יועציה המשפטיים והן על אומדן הקבוצה בדבר סכומי הפשרה הסבירים שהחברה צפויה לשאת, במידה והסדרי פשרה כאמור יוסכמו על ידי הצדדים לתביעות. ההפרשה הנכללת בדוחות הכספיים המאוחדים בגין כלל התביעות נגד הקבוצה הינה בסך של 49 מיליון ש"ח (ראה גם ביאור 14, בדבר הפרשות).

להלן פירוט התביעות העומדות ותלויות כנגד הקבוצה, מסווגות בהתאם לקבוצות בעלות מאפיינים דומים. הסכומים המוצגים להלן מחושבים על פי סכומי התביעות נכון למועדי הגשתן לקבוצה.

א. תביעות צרכניות

במהלך העסקים הרגיל הוגשו לבתי משפט תביעות משפטיות כנגד הקבוצה על ידי לקוחות שלה. מדובר בעיקר בתביעות ובקשות לאשרן כתביעות ייצוגיות, שעניינן בעיקר טענות לגביית כספים שלא כדין, התנהלות שלא על פי דין או רישיון, או הפרת ההסכמים עם הלקוחות, תוך גרימת נזקים ממוניים ושאינם ממוניים ללקוחות. נכון ליום 31 בדצמבר 2017, הסכומים הנתבעים מהקבוצה בתביעות לקוחות מסתכמים לסך כולל של כ-16.634 מיליארד ש"ח (סכום זה כולל תביעות שאושרו כייצוגיות, כמפורט להלן). כמו כן, קיימות תביעות נוספות כנגד הקבוצה, שבגינן לא צוין סכום התביעה, ככל שתאושרנה כתביעות ייצוגיות, אשר בגינן קיימת לקבוצה חשיפה נוספת מעבר לאמור לעיל. בנוסף, ישנה תביעה נוספת כנגד הקבוצה ונתבעים נוספים יחדיו, בלי שצוין סכום התביעה מהקבוצה בנפרד, בסכום כולל של כ-300 מיליון ש"ח, תביעה נוספת כנגד הקבוצה ונתבעים נוספים יחדיו, אשר הסכום הנתבע בגינה מהקבוצה הוערך על ידי התובעים בסך של כ-3 מיליון ש"ח, וכן תביעות נוספות כנגד הקבוצה ונתבעים נוספים, שבגינן לא צוין סכום התביעה, ככל שתאושרנה כתביעות ייצוגיות, אשר בגינן קיימת לקבוצה חשיפה נוספת מעבר לאמור לעיל.

בחודש דצמבר 2016, בית המשפט המחוזי אישר חלקית תביעה שהוגשה כנגד החברה בחודש יולי 2014 כתביעה ייצוגית, בטענה כי ההודעות המסחריות שהחברה שלחה ללקוחותיה אינן עומדות בדרישות החוק. בחודש ינואר 2017, התובעים הגישו ערעור לבית המשפט העליון ביחס לדחיית הטענות שלא אושרו. הסכום שנתבע מהחברה הוערך על ידי התובעים בכ-21 מיליון ש"ח.

בחודש ינואר 2017, בית המשפט המחוזי אישר חלקית תביעה שהוגשה כנגד הקבוצה בחודש פברואר 2013 כתביעה ייצוגית, בטענה כי הקבוצה לא ניתקה את לקוחותיה במועד שנקבע בחוק על אף בקשותיהם בניגוד לרישיונה ובניגוד להוראות דין. בחודש מרס 2017, התובעים הגישו ערעור לבית המשפט העליון ביחס לדחיית הטענות שלא אושרו. הסכום שנתבע מהקבוצה הוערך על ידי התובע בכ-72 מיליון ש"ח.

בחודש דצמבר 2017, בית המשפט המחוזי אישר תביעה שהוגשה כנגד החברה בחודש מאי 2015, בטענה כי החברה חייבה חלק מלקוחותיה שלא כדין בגין פירוט שיחות כתביעה ייצוגית. בחודש פברואר 2018, לאחר סוף תקופת הדיווח, החברה הגישה ערעור לבית המשפט העליון על הטענות שאושרו והתובעים הגישו ערעור על הטענות שנדחו. הסכום שנתבע מהחברה לא הוערך על ידי התובעים.

מתוך כלל התביעות הצרכניות והבקשות לאישורן כתביעות ייצוגיות, בשתי תביעות ובקשות לאשרן כתביעות ייצוגיות בסכום שהוערך על ידי התובעים בסך כולל של כ-15.076 מיליארד ש"ח, הוגשו הסכמי פשרה לאישור בית המשפט, אך ההליכים טרם הסתיימו.

מתוך כלל התביעות הצרכניות והבקשות לאישורן כייצוגיות, קיימת תביעה בסך של כ-6 מיליון ש"ח, אשר בשלב מקדמי זה טרם ניתן להעריך את סיכויי הצלחתה.

לאחר סוף תקופת הדיווח, הסתיימו שתי תביעות ובקשות לאשרן כתביעות ייצוגיות כנגד הקבוצה, בסכום כולל שהוערך על ידי התובעים בסך של כ-160 מיליון ש"ח ותביעה ובקשה לאשרה כתביעה ייצוגית נוספת כנגד הקבוצה שבגינה לא צוין סכום התביעה מהקבוצה.

לאחר סוף תקופת הדיווח, הוגשו לבית המשפט חמש תביעות ובקשות לאשרן כתביעות ייצוגיות כנגד הקבוצה: שלוש תביעות ובקשות לאשרן כתביעות ייצוגיות בסכום כולל שהוערך על ידי התובעים בסך של כ-88 מיליון ש"ח, תביעה ובקשה לאשרה כתביעה ייצוגית בסכום כולל שהוערך על ידי התובעים בעשרות מיליוני ש"ח ותביעה ובקשה לאשרה כתביעה ייצוגית כנגד הקבוצה ונתבעים נוספים יחדיו, אשר הסכום שנתבע בגינה מהקבוצה הוערך על ידי התובעים בסך של כ-4 מיליון ש"ח. בשלב מקדמי זה טרם ניתן להעריך את סיכויי הצלחתן.

ביאור 31 - התחייבויות תלויות (המשך)

להלן פירוט מספר תביעות ייצוגיות צרכניות וכן בקשות לאישור תביעות ייצוגיות העומדות ותלויות כנגד הקבוצה בחלוקה לפי סכום התביעה, נכון ליום 31 בדצמבר 2017:

סכום התביעה	מספר התביעות	סה"כ סכום התביעות (במיליוני ש"ח)
עד 100 מיליון ש"ח	15	468
100 מיליון ש"ח ועד 500 מיליון ש"ח	5	1,166
מעל 1 מיליארד ש"ח	1	15,000
תביעות שבגינן לא צוין סכום התביעה	12	-
כנגד הקבוצה ונתבעים נוספים יחדיו שבגינן לא צוין סכום התביעה מהקבוצה בנפרד	1	300
כנגד הקבוצה ונתבעים נוספים יחדיו שבגינן צוין סכום התביעה מהקבוצה בנפרד	1	3
תביעות שבגינן לא צוין סכום התביעה כנגד הקבוצה ונתבעים נוספים	5	-

להלן פרטים בדבר תביעות ובקשות לאשרן כתביעות ייצוגיות נגד הקבוצה, שהסכום הנתבע בהן היה 1 מיליארד ש"ח ומעלה:

1. בחודש מרס 2015, הוגשה לבית המשפט תביעה ובקשה לאשרה כתביעה ייצוגית כנגד הקבוצה, שהוערכה על ידי התובעים בסך כולל של 15 מיליארד ש"ח, אם תאושר כתביעה ייצוגית, על ידי שני תובעים שלטענתם הינם לקוחות של החברה, בקשר עם טענות שהחברה פגעה שלא כדין בפרטיות לקוחותיה. בחודש פברואר 2017, הוגש הסכם פשרה לבית המשפט, אך ההליכים טרם הסתיימו.
2. בחודש דצמבר 2015, הוגשה תביעה ובקשה לאשרה כתביעה ייצוגית נגד החברה, וכנגד שתי נתבעות נוספות, בטענה כי הנתבעות מציעות שלא כדין כרטיסי חיוב מסוג pre-paid בתעריפים גבוהים במיוחד, על ידי תיאום מחירים ביניהן. אם התביעה הייתה מאושרת כתביעה ייצוגית, הסכום הכולל הנתבע משלוש הנתבעות הוערך על ידי התובעים בכ-13 מיליארד ש"ח, כאשר מתוך סכום זה, בהתבסס על הנתונים המפורטים בכתבי הטענות של התובעים, הוערך הסכום הנתבע מהחברה בכ-6.7 מיליארד ש"ח. בחודש ספטמבר 2016, הבקשה לאישור התביעה כתביעה ייצוגית כנגד החברה, נדחתה בהחלטת בית המשפט המחוזי. בחודש נובמבר 2016, התובעים הגישו ערעור ביחס להחלטת בית המשפט המחוזי ובחודש ינואר 2017, בית המשפט העליון דחה את הערעור.

ב. תביעות עובדים, קבלני משנה, ספקים, רשויות ואחרים

במהלך העסקים הרגיל הוגשו תביעות משפטיות שונות כנגד הקבוצה על ידי עובדים, קבלני משנה, ספקים, רשויות ואחרים שעניינן בעיקר טענות להפרת הוראות הדין ביחס לסיום העסקת עובדים ותשלומי חובה לעובדים, טענות להפרת הסכמים, הפרת זכויות יוצרים, הפרת פטנט ותשלומי חובה לרשויות.

ליום 31 בדצמבר 2017, הסכומים הנתבעים מהקבוצה בתביעות אלה מסתכמים לסך כולל של כ-27 מיליון ש"ח.

ג. שעבדים וערבויות

במסגרת הנפקת סדרות ו' ו-יב' של אגרות החוב והסכמי ההלוואות שבהם התקשרה החברה, התחייבה החברה לא ליצור שעבדים על נכסיה למעט חריגים מסוימים.

ערבויות בנקאיות שניתנו על ידי הקבוצה:

1. לממשלת ישראל (להבטחת ביצוע תנאי רישיון רט"ן) - 80 מיליון ש"ח.
2. לממשלת ישראל (להבטחת ביצוע תנאי הרישיונות של הקבוצה) - 18 מיליון ש"ח.
3. לספקים, מוסדות ממשלתיים ואחרים - 159 מיליון ש"ח.

ביאור 32 - רגולציה וחקיקה

א. בהתאם לצו ביניים שניתן על ידי בית המשפט העליון בחודש ספטמבר 2010, החברה אינה רשאית להסתמך על הפטור מקבלת היתרי בניה לצורך הקמת מתקני גישה ברשתות סלולריות, למעט לצורך החלפה או מיקום מחדש של מתקני גישה בתנאים מסוימים, עד להתקנת תקנות המגבילות את ההסתמכות כאמור או החלטה אחרת של בית המשפט. בשנת 2017 טיוטת תקנות הקובעת פרוצדורות לביצוע שינויים במתקני גישה קיימים, כולל החלפתם והקמת כמות מוגבלת של מתקני גישה חדשים הפטורים מהיתרי בניה, אך מחייבים קיום פרוצדורות מסוימות מול הרשות המקומית, נידונה בוועדת הכלכלה של הכנסת.

ב. בשנת 2012, פרסם שר התקשורת מסמך מדיניות ביחס לשירותי תקשורת ניחת סיטונאיים שקבע בעיקר כדלקמן:
(1) הקמת שוק שירותי גישה לשירותי טלקומוניקציה סיטונאי אפקטיבי בישראל, כך שבזק והוט יאפשרו למפעילות אחרות שאינן בעלות תשתית, לעשות שימוש בתשתית שלהן לצורך מתן שירותים ללקוחות קצה; (2) ביטול מדורג של ההפרדה המבנית בקבוצות בזק והוט והחלפתה בהפרדה חשבונאית ושינוי הפיקוח על התעריפים הקמעונאיים של בזק לתעריפים מירביים במקום קביעת תעריפים קבועים הנוכחית, התלויה, ככלל, בהתפתחות השוק הסיטונאי ומצב התחרות בשוק, וביחס לשירותי שידור טלוויזיה, אם תהיה אפשרות סבירה לאספקת חבילת שירותי טלוויזיה בסיסית באמצעות האינטרנט על ידי ספקים שאין להם תשתית תקשורת ניחת ארצית.

בשנת 2015, השוק הסיטונאי הקווי הושק פורמלית בישראל ביחס לשירותי תשתית אינטרנט וביחס לשימוש בתשתית פיזית מסוימת על ידי מפעילים שאינם מחזיקים בתשתית כאמור.

למרות שהשוק הסיטונאי כלל פורמלית גם את תשתית הוט, תשתית הוט לא נכללה למעשה בשוק הסיטונאי עד לאחרונה, תחילה מאחר שהתעריפים המקסימליים עבור שירותי תשתית סיטונאית של הוט לא פורסמו על ידי משרד התקשורת עד יוני 2017 (והינם גבוהים מאלו שנקבעו עבור שירות בזק) ולאחר מכן בעקבות אי הסכמות עם הוט ביחס ליישום השירות, שנפתרו לאחרונה על ידי משרד התקשורת. למיטב ידיעת החברה, לא מסופקים שירותים סיטונאיים על בסיס תשתית הוט. משרד התקשורת הודיע בעבר כי הוא לא יתערב בתעריפים שקבעה הוט עבור שירותי טלפוניה סיטונאיים.

בחודש יוני 2017, משרד התקשורת פרסם תקנות בעניין שירות מכירה חוזרת של טלפוניה על ידי בזק, שיסופק על ידי בזק החל מחודש יולי 2017, כחלופה זמנית בת 14 חודשים לשירות טלפוניה קווית סיטונאי. בנוסף, קבע משרד התקשורת שחובת בזק להציע שירות טלפוניה קווית סיטונאי, יידחה עד לחלוף התקופה האמורה של שירות מכירה חוזרת של טלפוניה. בהחלטה צוין בנוסף שמשרד התקשורת ישקול לקבוע את שירות המכירה החוזרת של הטלפוניה כחלופה קבועה לשירות טלפוניה קווית סיטונאי. התעריפים שנקבעו לשירות מכירה חוזרת של טלפוניה גבוהים משמעותית מאשר אלו שנקבעו עבור שירות טלפוניה קווית סיטונאי של בזק. משרד התקשורת מקיים שימוע בנושא התעריפים האמורים, שבסיומו יוחלו התעריפים שיקבעו רטרואקטיבית.

בנוסף, בחודש ינואר 2016, הכריז משרד התקשורת על כוונתו לבטל את ההפרדה המבנית החלה על הוט ובזק כחלק מתוכניתו להבטיח השקעות נכבדות בתשתית סיבים אופטיים בישראל. בחודש דצמבר 2016, משרד התקשורת הודיע לבזק שהוא מתכוון לערוך שימוע ציבורי ביחס לביטול אפשרי של ההפרדה התאגידי וללאחר מכן ההפרדה המבנית בקבוצת בזק.

תיקון לחוק התקשורת מטיל חובת מתן שירותים סיטונאיים על כל המפעילים הקווים, לרבות החברה, והדורש מכל המפעילים הקווים להעניק למפעילים קווים אחרים גישה לתשתית הפאסיבית שלהם (למעט התשתית הפאסיבית של IBC), תחת תנאים שייקבעו במשא ומתן בין הצדדים (למעט ביחס לבזק ולהוט, שנקבעו על ידי הרגולטור).

ביאור 32 - רגולציה וחקיקה (המשך)

ג. משרד התקשורת קבע דרישות מסוימות לאישור שיתוף רשתות, לרבות העקרונות הבאים: (1) עידוד שיתוף ברכיבים פאסיביים של אתרים ושיתוף אקטיבי של אנטנות בין מפעילים סלולריים; (2) שיתוף אקטיבי של רשתות רדיו תוך שימוש בצידוד ותדרים משותפים יותר רק בין מפעיל עם פריסת רשת דור שלישי חלקית ומפעיל עם פריסה מלאה של רשת דור שלישי, בעוד ששיתוף כאמור לא יותר בין שני מפעילים עם פריסת רשת דור שלישי מלאה; (3) שיתוף בתמסורת מהאתרים בין מפעילים שחולקים בתדרים מותרת ככלל; (4) אישור של שיתוף אקטיבי ברשתות רדיו שעושות שימוש בצידוד ותדרים משותפים יהיה לתקופה מוגבלת, רק אם יהיו לפחות שלוש רשתות רדיו סלולריות עצמאיות בישראל, והינו מותנה בתנאים מסוימים, לרבות: (א) החובה לאפשר למפעילים אחרים להצטרף בתנאים דומים לאלו שהוענקו למפעיל המשתף עם נתח השוק הקטן ביותר; (ב) החובה לארח מפעיל וירטואלי ללא הסכמת המפעילים המשתפים האחרים; (ג) רשת הרדיו המשותפת חייבת להיות מופעלת באמצעות גוף משותף שיוחזק בשיעור שווה בין המפעילים המשתפים, שיידרש לקבל רישיון ממשרד התקשורת וישתמש בתדרים שיוקצו למפעילים משתפים; ו-ד) רכיבי הרדיו של הרשת המשותפת יוחזקו בשיעור שווה על ידי המפעילים המשתפים ולכל אחד מהמפעילים המשתפים תהיה זכות שימוש בתשתית הפאסיבית של המפעילים המשתפים האחרים לרבות לאחר סיום ההסכם.

לפרטים בדבר הסכמי שיתוף ואירוח של החברה עם אקספון וגולן, ראה ביאור 30, בדבר התקשרויות.

ד. בחודש יוני 2016, הועדה לרגולציה של השידורים שמונתה על ידי שר התקשורת פרסמה על המלצותיה הסופיות, לרבות סיווג ספקי אודיו ויז'ואל בשוק לקטגוריות וקביעת הרגולציה שתחול על כל קטגוריה כדלקמן: תחת 10% נתח שוק הכנסות - רגולציה עצמית; מעל 10% נתח שוק הכנסות - רגולציה צרה המחייבת רישיון; מעל 10% נתח שוק הכנסות במשך 3 שנים רצופות - רגולציה מלאה, לרבות חיוב בביצוע השקעות בתוכן ישראלי מקורי. יישום ההמלצות האמורות כפוף לאימוצן בחקיקה.

ה. בשנת 2017, בעקבות דרישת משרד התקשורת לאחד את הרשיונות האחודים המוחזקים על ידי כל קבוצת תקשורת לרישיון אחוד אחד, השלימה החברה ארגון מחדש של החברות הבנות שלה, לרבות נטוויז'ן, שבעקבותיו כל הפעילות הנייחת של החברה תחת הרישיון האחוד מאוחדת תחת שותפות בבעלות מלאה של החברה - סלקום תקשורת קווית, שותפות מוגבלת.

ביאור 33 - צדדים קשורים ובעלי עניין

א. יתרות מאזניות

31 בדצמבר	
2016	2017
מיליוני ש"ח	מיליוני ש"ח
1	2
1	2
3	-

נכסים שוטפים
התחייבויות שוטפות
התחייבות לז"א - אג"ח (כולל חלויות שוטפות)*

*יתרת האג"ח המוחזקת על ידי צדדים קשורים, הכוללת אג"ח המוחזקות לטובת הציבור באמצעות, בין היתר, קופות גמל, קרנות נאמנות וקופות פנסיה, ליום 31 בדצמבר 2017 ו-2016, הינה 19 מיליון ש"ח ע.נ. צמוד למדד המחירים לצרכן ו-25 מיליון ש"ח ע.נ. צמוד למדד המחירים לצרכן, בהתאמה.

ב. עסקאות עם צדדים קשורים ובעלי עניין מתבצעות במהלך העסקים הרגיל בתנאים מסחריים רגילים:

לשנה שהסתיימה ביום 31 בדצמבר		
2015	2016	2017
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
16	17	13
25	16	16

הכנסות:
הכנסות שוטפות

הוצאות:
עלות מתן השירותים ואחרות

הקבוצה נוהגת במהלך העסקים הרגיל, מעת לעת, לרכוש, לשכור, למכור ולשתף פעולה במכירת מוצרים ושירותים או להתקשר בעסקאות עם ישויות אשר הינן חברות בקבוצת דסק"ש/ אי.די.בי. או בעלי עניין או צדדים קשורים אחרים.

הקבוצה בחנה עסקאות אלה ומאמינה כי הן בוצעו בתנאים מסחריים הדומים לאלה שהקבוצה יכולה לקבל מ/לספק לצדדים לא קשורים.

ג. הטבות לאנשי מפתח ניהוליים

המנהלים הבכירים בקבוצה זכאים, בנוסף לשכר, להטבות שלא במזומן (כגון: רכב, ביטוח רפואי וכדומה) והקבוצה מפקידה עבורם כספים במסגרת תכנית הטבה מוגדרת לאחר סיום העסקה.

הקבוצה התחייבה לשפות נושאי משרה וכן עובדים ספציפיים נוספים של הקבוצה, בגין אירועים מסוימים המפורטים בכתבי השיפוי שהוענקו להם. סכום השיפוי המצטבר שישולם לכל נושאי המשרה והעובדים האחרים שלהם ניתנו או שיינתנו להם כתבי שיפוי כאמור, מוגבל לסכום של תגמולי הביטוח שתקבל הקבוצה מחברת ביטוח בתוספת סכום השווה ל- 30% מההון העצמי של הקבוצה לפי דוחותיה הכספיים ליום 31 בדצמבר, 2001, או סכום של 486 מיליון ש"ח.

מנהלים בכירים משתתפים גם בתכנית כתבי אופציות למניות של הקבוצה (ראה ביאור 20, בדבר תשלומים מבוססי מניות).

הטבות בגין העסקת אנשי מפתח ניהוליים כוללות:

לשנה שהסתיימה ביום 31 בדצמבר		
2015	2016	2017
מיליוני ש"ח	מיליוני ש"ח	מיליוני ש"ח
4	4	6
1	1	1
5	5	7

הטבות לעובדים לטווח קצר
תשלומים מבוססי מניות

ביאור 33 - צדדים קשורים ובעלי עניין (המשך)

ד. הסכמים עם דסק"ש

בשנת 2006, התקשרה החברה בהסכם עם דסק"ש, אשר במסגרתו נקבע שדסק"ש תספק לקבוצה שירותי ייעוץ בתחומי הניהול, פיננסיים, עסקיים וחשבונאות. בשנת 2015, ההסכם תוקן כך שהתמורה השנתית עבור שירותי הניהול של דסק"ש תהיה שווה לשכר דירקטור (הן שכר שנתי והן שכר השתתפות בישיבה) המשולם לדירקטורים החיצוניים ועצמאיים של החברה (שהינו בסכום של 134,180 ש"ח לשנה וסך של 4,035 ש"ח לישיבה, בתוספת הצמדה למדד בגין חודש אוקטובר 2015), עבור כל דירקטור שדסק"ש תמנה או תציע לדירקטוריון, אך לא יותר מחמישה דירקטורים. התקשרות הצדדים בהסכם זה הינה לתקופה קצובה של שנה וההסכם יתחדש מאליו לתקופות נוספות בנות שנה כל אחת (אולם הארכתו מעבר לאוקטובר 2018 מחייבת קבלת אישור מוסדות הצדדים לפי חוק החברות), אלא אם מי מהצדדים יודיע בכתב למשנהו, לפחות 60 ימים מראש, על אי חידוש ההסכם כאמור. נכון לתאריך המאזן, לא כלולים בהסכם שירותי דירקטורים ולא משולמים דמי ניהול לפיו.

As amended and restated on June 7, 2017

THE ISRAELI COMPANIES LAW

A COMPANY LIMITED BY SHARES

AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

Cellcom Israel Ltd.

GENERAL PROVISIONS

1. Definitions

- a) In these Articles the following terms shall bear the meaning ascribed to them below:

“**Affiliate**” shall mean, with respect to any Person, another Person which, whether directly or indirectly, Controls, is Controlled by, or is under common Control with, the subject Person.

“**Alternate Director**” is defined in Article 44.

“**Annual General Meeting**” shall have the meaning assigned to such term in the Companies Law.

The “**Articles**” shall mean these Articles of Association of the Company, as amended from time to time.

“**Board of Directors**” shall mean Board of Directors of the Company.

A “**Business Day**” shall mean any day on which banks in Israel are open for business.

The “**Cellular License**” shall mean the license for the provision of cellular services granted to the Company on June 27, 1994 by the Israeli Ministry of Communications, as amended from time to time.

The “**Company**” shall mean Cellcom Israel Ltd.

The “**Companies Law**” shall mean the Israeli Companies Law, 1999, as amended from time to time.

“**Contravening Holdings**” shall mean the holdings of Traded Means of Control, that are held (i) without the approval of the Minister of Communications required pursuant to Section 21 of the Cellular License or in contravention of the provisions of Section 23 of the Cellular License, and all holdings of a holder of Traded Means of Control who acted in contravention of the provisions of Section 24 of the Cellular License, for so long as the approval of the Minister of Communications is required pursuant to Section 21 of the Cellular License but has not been obtained, or the circumstances which constitute a violation of the provisions of Sections 23 or 24 of the Cellular License continue to exist, as the case may be, or (ii) in contravention of any of the similar restrictions set forth in any of the Other Licenses, for so long as such contravention continues to exist.

“**Control**” shall have the meaning assigned to such term in the Israeli Securities Law, 1968, as amended from time to time.

“**DIC**” shall mean Discount Investment Corporation Ltd., an Israeli company, and any Person Controlled by DIC which holds shares of the Company (excluding the Company itself), and their respective successors.

A “**Director**” shall have the meaning assigned to such term in the Companies Law.

“**External Director**” shall have the meaning assigned to such term in the Companies Law.

“**Extraordinary General Meeting**” shall mean any General Meeting other than the Annual General Meeting.

“**Founding Shareholders**” shall mean DIC and any of its transferees, including transferees which are Israeli Shareholders, provided that each such transferee: (i) is approved by the Minister of Communications in writing to be a substitute for a Founding Shareholder for the purpose of the Cellular License (which substitution shall be effective as of the date determined by the Minister of Communications), (ii) undertakes to the Company to hold its respective minimum number of Ordinary Shares pursuant to such approval, and (iii) enters into one or more agreements with the other Founding Shareholders for the purpose of ensuring the compliance by the Company with section 22A of the Cellular License.

“**General Manager(s)**” is defined in Article 49.

“**General Meeting**” shall mean a general meeting of the shareholders of the Company, which may be an Annual General Meeting or an Extraordinary General Meeting.

“**IDB**” shall mean IDB Holding Corporation Ltd., an Israeli company.

“**IDB Group**” shall mean IDB and its Affiliates.

“**Israeli Citizen**” shall have the meaning assigned to such term in the Israeli Citizenship Law, 1952, as amended from time to time.

“**Israeli Director**” shall mean a Director appointed by the Israeli Shareholders from among the Founding Shareholders.

“**Israeli Resident**” shall have the meaning assigned to such term in the Israeli Population Registration Law, 1965, as amended from time to time.

“**Israeli Shareholder**” shall mean a holder of Ordinary Shares that: (i) in respect of an individual, is an individual who is an Israeli Citizen and Israeli Resident, and (ii) in respect of an entity, is an entity formed under the laws of the State of Israel and Controlled, directly or indirectly, by an individual who qualifies under clause (i) above, *provided* that any indirect Control may only be exercised through one or more entities formed under the laws of the State of Israel, and *further provided* with respect to any indirect Control, that the Prime Minister and the Minister of Communications of Israel may approve in their discretion such indirect Control through an entity that was not formed under the laws of the State of Israel for the purpose of qualifying the Person Controlling such entity as an Israeli Shareholder, provided that such non-Israeli entity does not hold any of the Company’s shares directly.

“**Means of Control**” shall mean any of the following: (1) the right to vote at a General Meeting of the Company; (2) the right to appoint a Director or General Manager of the Company; (3) the right to participate in the profits of the Company; or (4) the right to a share of the remaining assets of the Company after payment of its debts upon liquidation.

The “**Memorandum**” shall mean the Memorandum of Association of the Company, as amended from time to time.

The “**Minimum Israeli Holding Percentage**” shall mean the minimum percentage of each of the Means of Control in the Company required to be held by the Israeli Shareholders from among the Founding Shareholders (which, as of the date on which these Articles become effective, are DIC), pursuant to the Cellular License and the Other Licenses, which as of July 31, 2017 is 5%, provided, however, that “dormant shares” (as defined in the Companies Law) held by the Company shall not be counted as part of the Company’s outstanding share capital for the purpose of calculating the Minimum Israeli Holding Percentage.

“**NIS**” shall mean New Israeli Shekel.

“**Office**” means the registered office of the Company.

“**Ordinary Majority**” shall mean a simple majority of the votes cast by shareholders at a General Meeting in person or by means of a proxy.

“**Ordinary Shares**” shall mean the ordinary shares of the Company, par value NIS 0.01 per share.

An “**Original Minority Shareholder**” shall mean each of Mr. Shlomo Piotrkowsky, Mr. Brian Greenspun, Mr. Daniel Steinmetz and Mr. Benjamin Steinmetz, and all their respective successors, heirs, estates and assigns, except for members of the IDB Group, and collectively the “**Original Minority Shareholders**”.

The “**Other Licenses**” shall mean the licenses granted and future licenses to be granted to the Company by the Israeli Ministry of Communications other than the Cellular License, as such licenses may be amended from time to time.

"Person" shall mean any individual or firm, corporation, partnership, association, trust or other entity.

"Register of Shareholders" shall mean a register of the shareholders of the Company.

The "Secretary" shall mean the corporate secretary of the Company.

"Shareholders Resolution" shall mean a resolution adopted by votes of shareholders of the Company at a General Meeting.

"Traded Means of Control" shall mean Means of Control, including Global or American Depositary Shares or similar instruments in respect of securities, listed for trade on a securities exchange in Israel or abroad (other than a country that is an enemy of the State of Israel) or which have been offered to the public by means of a prospectus other than in a country that is an enemy of the State of Israel, and are held by the public in Israel or abroad.

- b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.
- c) Unless the subject or the context otherwise requires, words and expressions not defined herein shall have the respective meanings set forth in the Companies Law in force on the date when these Articles or any amendment thereto, as the case may be, first became effective; words and expressions importing the singular shall include the plural and vice versa; and words and expressions importing the masculine gender shall include the feminine gender.

2. Object and Purpose of the Company

(a) The object and purpose of the Company shall be as set forth in the Company's Memorandum, as the same shall be amended from time to time in accordance with applicable law.

(b) In accordance with Section 11(a) of the Companies Law, the Company may donate reasonable amounts to any cause it deems worthy. The Board of Directors may from time to time determine the policy and amounts within which such donations may be made by the Company, and the Person or Persons authorized to approve any such specific donation.

3. Limitation of Liability

The liability of the shareholders is limited to the payment of the nominal value of the shares in the Company allotted to them and which remains unpaid, and only to that amount. If the Company's share capital shall include at any time shares without a nominal value, the shareholders' liability in respect of such shares shall be limited to the payment of up to NIS 0.01 for each such share allotted to them and which remains unpaid, and only to that amount.

SHARE CAPITAL

4. Authorized Share Capital

The authorized share capital of the Company is three million New Israeli Shekels (NIS 3,000,000) divided into three hundred million (300,000,000) Ordinary Shares, par value NIS 0.01 per share.

5. Increase of Authorized Share Capital

(a) The Company may, from time to time, by a Shareholders Resolution, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its authorized share capital by the creation of new shares through amending the Memorandum and these Articles. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts (or no nominal amounts), and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares prior to such resolution.

6. Rights of the Ordinary Shares

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of a Company, as provided in these Articles, including, *inter alia*, the right to receive notices of, and to attend meetings of shareholders; for each share held, the right to one vote at all meetings of shareholders; and to share equally, on a per share basis, in such dividend and other distributions to shareholders of the Company as may be declared by the Board of Directors in accordance with these Articles and the Companies Law, and upon liquidation or dissolution of the Company, in the distribution of assets of the Company legally available for distribution to shareholders in accordance with the terms of applicable law and these Articles. All Ordinary Shares rank *pari passu* in all respects with each other.

7. Special Rights; Modifications of Rights

(a) Without prejudice to any special rights previously conferred upon the holders of existing shares in the Company or obligations previously undertaken by the holders of existing shares in the Company, the Company may, from time to time, by Shareholders Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles and subject to applicable law, may be modified or abrogated by the Company, by Shareholders Resolution, subject to an approval by a resolution passed by the holders of a majority of the shares of such class voting at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 7(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

8. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

- (a) The Company may, from time to time, by Shareholders Resolution (subject, however, to the provisions of Article 7(b) hereof and to applicable law):
- (i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares;
 - (ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles (subject, however, to the provisions of the Companies Law), and the Shareholders Resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares;
 - (iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any Person, and diminish the amount of its share capital by the amount of the shares so canceled; or
 - (iv) reduce its share capital in any manner, and with and subject to any consent required by law.
- (b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, *inter alia*, resort to one or more of the following actions:
- (i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;
 - (ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
 - (iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
 - (iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred; or
 - (v) cause the sale of fractional shares so as to most expediently preclude or remove any fractional shareholding and cause the proceeds thereof, less expenses, to be paid to the transferors.
- (c) Notwithstanding the foregoing, if a class of shares has no nominal value, then any of the foregoing actions may be taken with respect to such class without regard to nominal value.

SHARES

9. Issuance of Share Certificates; Replacement of Lost Certificates

(a) Share certificates shall be issued under the seal or stamp of the Company and shall bear the signature of the General Manager and the Chief Financial Officer, or of any other Person or Persons authorized thereto by the Board of Directors. For the avoidance of doubt, any transfer agent designated by the Company may issue share certificates on behalf of the Company even if the signatories on the share certificate no longer serve in the relevant capacities at the time of such issuance.

(b) The Company may issue un-certificated shares, provided, however, that each holder of shares shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if reasonably requested by such holder, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more Persons shall be delivered to the Person first named in the Register of Shareholders in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such affidavit and indemnity, as the Company's Secretary may deem fit.

10. Allotment of Shares; Registered Holders of Shares

(a) The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such Persons, on such terms and conditions (including *inter alia* terms relating to calls as set forth in Article 11(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may deem fit, and the power to give to any Person the option to acquire from the Company any shares, either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, during such time and for such consideration as the Board of Directors may deem fit.

(b) Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any trust or equitable or other claim to, or interest in such share on the part of any other Person.

(c) The Board of Directors may elect to maintain one or more Registers of Shareholders outside of Israel in addition to its principal Register of Shareholders, and each such register shall be deemed a Register of Shareholders for purposes of these Articles.

11. Calls on Shares

(a) The Company may, from time to time, make such calls as the Board of Directors may determine upon holders of shares in respect of any sum unpaid for shares held by such holders which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each such holder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the Person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such Person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the holder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the Person to whom such payment shall be made, provided, however, that before the time for any such payment, the Company upon approval of the Board of Directors may, by notice in writing to such holder(s), revoke such call in whole or in part, extend such time, or alter such Person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Company and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

(g) With the approval of the Board of Directors, any holder of shares may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 11(g) shall derogate from the right of the Company to make any call before or after receipt by the Company of any such advance.

12. Forfeiture and Surrender

(a) If any holder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, *inter alia*, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such holder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Company with the approval of the Board of Directors), such shares shall be *ipso facto* forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any shares forfeited or surrendered as provided herein shall become "dormant shares" (as defined in the Companies Law) and the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors deems fit.

(f) Any holder whose shares have been forfeited or surrendered shall cease to be a holder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 11(e) above, and the Company, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the holder in question (but not yet due) in respect of all shares owned by such holder, solely or jointly with another.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it deems fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 12.

13. Lien

(a) Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares (other than shares which are fully paid up) registered in the name of each holder (without regard to any equitable or other claim or interest in such shares on the part of any other Person), and upon the proceeds of the sale thereof, for his debts and liabilities, solely or jointly with another, to the Company in respect of such shares, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt or liability has matured, in such manner as the Board of Directors may deem fit, but no such sale shall be made unless such debt or liability has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such holder, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of such debts and liabilities of such holder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the holder, his executors, administrators or assigns.

14. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some Person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Shareholders in respect of such shares, and the purchaser shall not be bound to see to the propriety of the proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Shareholders in respect of such shares, the validity of the sale shall not be impeached by any Person, and the remedy of any Person aggrieved by the sale shall be in damages only and against the Company exclusively.

15. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same upon the conditions and terms determined by the Board of Directors.

TRANSFER OF SHARES

16. Effectiveness and Registration

(a) No transfer of shares shall be registered in the Register of Shareholders unless a proper instrument of transfer (in form and substance satisfactory to the Secretary) has been submitted to the Company or its agent, together with any share certificate(s) and such other evidence of title as the Secretary may reasonably require, and unless such transfer complies with applicable law, the Cellular License, the Other Licenses and these Articles. Until the transferee has been registered in the Register of Shareholders in respect of the shares so transferred, the Company may continue to treat the transferor as the owner thereof. The Board of Directors may, from time to time, prescribe a fee for the registration of a transfer.

(b) The Company shall be entitled to refuse to recognize a transfer deed until the certificate of the transferred share is attached to it together with any other evidence which the Board of Directors or the Secretary shall require as proof of the transferor's right to transfer the share and payment of any transfer fee determined by the Board of Directors. Registered transfer deeds shall remain with the Company, but any transfer deed which the Company refused to register shall be returned to the transferor upon demand.

(c) The Board of Directors may close the Register of Shareholders for a period of up to thirty days in each year.

17. Limitation on Transfer of Shares Held by Original Minority Shareholders

(a) Any purported transaction in the shares of the Company in violation of the provisions of this Article 17 shall be null and void, and the Company shall not recognize or give any effect thereto.

(b) The sale, assignment or transfer to any third parties (including shareholders in the Company) other than DIC of all or part of the Ordinary Shares held by an Original Minority Shareholder without the prior written consent of DIC shall be null and void, and the Company shall not recognize or give any effect thereto.

(c) The sale, assignment or transfer to any third parties (including shareholders in the Company) of all or part of the Ordinary Shares held by an Original Minority Shareholder may not be effected unless the following conditions are met: (i) there is a formal written offer from a proposed purchaser (the "**Proposed Purchaser**") for the acquisition of such Ordinary Shares with payment to be made in cash; and (ii) the acquisition is subject to the agreement of the Proposed Purchaser to be bound by the terms of the agreement between the Original Minority Shareholders and DIC.

(d) Any Original Minority Shareholder (the "**Minority Offeror**") intending for any reason to sell, transfer or assign any number of its Ordinary Shares in the Company (the "**Minority Offeror's Shares**") shall notify DIC of same in writing stating the price per share and payment terms offered (the "**Minority Offeror's Notice**").

(e) The Minority Offeror's Notice shall be conclusively deemed an irrevocable offer made by the Original Minority Offeror to sell to DIC the Minority Offeror's Shares under the terms specified in the Minority Notice and in the manner herein below provided (the "**Minority Offeror's Offer**").

(f) DIC shall have a period of thirty (30) Business Days from the date the Minority Offeror's Notice is delivered thereto to notify the Minority Offeror of its desire to accept the Minority Offer ("**DIC Acceptance Notice**"). If DIC shall not have given the DIC Acceptance Notice within the said 30-day period, it shall be conclusively deemed to have rejected the Minority Offer. Conditional, partial or qualified acceptance of the offer shall be deemed a rejection of the Minority Offer.

(g) The closing of the transaction for the sale of the Minority Offeror's Shares in accordance with the DIC Acceptance Notice (the "**Closing**"), shall take place and be consummated on the fifteenth (15th) Business Day following the date upon which the said 30-day period expires. At the Closing, the Minority Offeror's Shares shall be sold and transferred against payment of the consideration therefor, in accordance with the terms specified in the Minority Offeror's Notice.

(h) In the event the Minority Offeror shall fail to transfer the Minority Offeror's Shares as aforesaid in accordance with the DIC Acceptance Notice, DIC shall be entitled to deposit the entire consideration specified in the Minority Offeror's Notice with the Company, and thereupon the Company may appoint any Person to execute adequate instruments of transfer and the name DIC shall be entered into the Register of Shareholders as the holder of the Minority Offeror's Shares so purchased and the name of the Minority Offeror shall be removed therefrom with respect to the Minority Offeror's Shares. As of the entry of DIC's name in the Register of Shareholders in respect of such shares, the validity of the sale shall not be rebuttable, and the sole right of the Minority Offeror would be to obtain the entire consideration for the Minority Offeror's Shares deposited with the Company.

(i) If a Minority Offeror intends to transfer all or part of its Ordinary Shares in the Company as aforesaid and DIC which has expressed its interest in exercising its above stated right of first refusal is impeded by provisions of the Cellular License or the Other Licenses or applicable law with which it must comply, from acquiring all or part of such shares, then DIC may designate a Person that will qualify in its stead to acquire the shares which it would have been otherwise entitled to purchase provided such Person is not prohibited from acquiring such shares pursuant to the Cellular License or Other Licenses or applicable law.

(j) In the event that by the end of the 30 Business-Day period specified above DIC shall not have delivered the DIC Acceptance Notice with respect to the purchase of all the Minority Offeror's Shares, the Minority Offeror shall be free to consummate the sale of the Minority Offeror's Shares under the terms and conditions specified in the Minority Notice within a period of additional 60 days.

(k) Notwithstanding the foregoing, any Ordinary Shares acquired by an Original Minority Shareholder after the Company's initial public offering of its Ordinary Shares shall not be subject to this Article 17 (other than Ordinary Shares initially held by an Original Minority Shareholder and subsequently transferred to a third party subject to the restrictions and limitations set forth in Articles 17(a) through 17(j) above).

18. Contravening Holdings: Compliance with the Cellular License and the Other Licenses

(a) To the extent practicable, Contravening Holdings shall be registered in a Register of Shareholders with a notation that such holdings have been classified as Contravening Holdings, immediately upon the Company's learning of the same. The Company shall send notice of any Contravening Holdings to the registered holder of the Contravening Holdings and to the Minister of Communications.

(b) Contravening Holdings shall not entitle the holder thereof to any rights in respect of such holdings and shall be deemed "dormant shares" as defined in the Companies Law, except with respect to receiving dividends or other distributions to shareholders (including the right to participate in any rights offering calculated on the basis of holding of any Means of Control, provided that any additional holdings acquired as a result of the exercise of such right to participate in a rights offering shall also become Contravening Holdings). Therefore, any action taken or claim made on the basis of a right deriving from Contravening Holdings shall have no effect from the time that the Company becomes aware thereof, except with respect to receiving dividends or other distributions as aforesaid.

(c) Without derogating from the foregoing:

(i) Contravening Holdings shall not have any voting rights at a General Meeting. Any shareholder participating in a General Meeting shall certify to the Company prior to the vote or, if the shareholder is voting by a proxy or any similar instrument, on such proxy card or similar instrument, as to whether or not his holdings in the Company or his vote require the approval by the Minister of Communications pursuant to Sections 21 or 23 of the Cellular License (or the similar provisions of the Other Licenses) or whether such shareholder is in violation of Section 24 of the Cellular License (or the similar provisions of the Other Licenses); in the event that any shareholder does not provide notification as aforesaid, he shall not be entitled to vote at a General Meeting and his vote shall not be counted.

(ii) No Director shall be appointed, elected or removed on the basis of Contravening Holdings. In the event a Director is appointed, elected or removed on the basis of Contravening Holdings, such appointment, election or removal shall be void from the time that the Company becomes aware thereof.

(d) Notwithstanding the foregoing, the provisions of Articles 18(a) through 18(c) shall not apply to holdings of Founding Shareholders. The Persons who undertake towards the Company to be deemed a Founding Shareholder and approved as such by the Minister of Communications shall hold in the aggregate at least 26% of each of the Means of Control of the Company, or such lower percentage thereof as may be approved from time to time by Minister of Communications.

(e) The shareholders of the Company shall at all times comply with the terms of the Cellular License and the Other Licenses. Nothing herein shall be construed as requiring or permitting the performance of any acts that are inconsistent with the terms of the Cellular License or the Other Licenses. If any of these Articles shall be found to be inconsistent with the terms of the Cellular License or the Other Licenses, the inconsistent provisions of such article shall be null and void, but the validity, legality or enforceability of provisions of other provisions shall not be affected thereby. Without derogating from the foregoing, the Founding Shareholders shall comply at all times with the Minimum Israeli Holding Percentage set forth in the Cellular License and the Other Licenses, as such may be amended from time to time.

18A. Security Committee; Security Observer; Qualifications of Directors and Officers

(a) Notwithstanding any other provision in these Articles, the Board of Directors shall appoint from among its members a Committee of the Board of Directors to be designated the "Security Committee". The Security Committee shall be comprised of at least four (4) Directors, including at least one External Director, all of whom have security clearance and security compatibility as determined by the Israeli General Security Service ("Directors with Clearance"). Subject to Article 18A(b) below, security matters shall be considered only by the Security Committee. Any decision of, or action by, the Security Committee shall have the same effect as if it had been made or taken by the Board of Directors. The Board of Directors shall consider a security matter only if required pursuant to Article 18A(b) below, and subject to the terms of that Article. For purposes of this Article 18A, "security matters" shall mean as defined in the Israeli Bezeq Order (Determination of Essential Service Provided by Bezeq-The Israeli Telecommunications Company Ltd.), 1997.

(b) Security matters which the Audit Committee or Board of Directors shall be required to consider in accordance with the mandatory provisions of the Companies Law or other law or rules applicable to the Company shall be considered, to the extent necessary, only by Directors with Clearance. Other Directors shall not be entitled to participate in meetings of the Audit Committee or Board of Directors dealing with security matters, or to receive information or to review documents related to these matters. A quorum for these meetings shall include only Directors with Clearance.

(c) Any Director or officer of the Company who would otherwise be required to receive information or participate in meetings regarding security matters by virtue of his position or these Articles or any law, but who is prevented from doing so by the provisions of this Article 18A, will be released from any liability for any claim of breach of duty of care to the Company which results from his inability to receive such information or participate such in meetings.

(d) The General Meeting shall not be entitled to assume, delegate, transfer or exercise any of the authorities granted to any other corporate body in the Company with respect to security matters.

(e) (i) The Minister of Communications shall be entitled to appoint an observer (the "**Security Observer**") to all meetings of the Board of Directors and its Committees. The Security Observer shall have the security clearance and security compatibility as determined by the Israeli General Security Service.

(ii) The Security Observer shall be an employee of the State of Israel qualified to serve as a director pursuant to Chapter C of the Israeli Governmental Companies Law, 1975.

(iii) In addition to any other obligations under law, the Security Observer shall be bound to preserve the confidentiality of any information relating to the Company, except as required to fulfill his responsibilities as Security Observer. The Security Observer shall not act as an observer or in any other position at an entity providing communication services which is a direct competitor of the Company, and shall avoid a conflict between his position as an observer and the interests of the Company, except for such conflicts arising from his being an employee of the State of Israel serving as a Security Observer. The Security Observer shall undertake not to serve as an observer or officer or director, and not serve in any other capacity or be employed, directly or indirectly, by any entity competing with the Company or in a position of conflict of interest with the Company, except for such conflicts arising from his being an employee of the State of Israel serving as a Security Observer, during the period of his service as the Security Observer and for 18 months after termination of such period. Any differences of opinion with respect to whether the Security Observer has a conflict of interest as described above shall be resolved by the Attorney General of Israel or his representative.

(iv) Notices of meetings of the Board of Directors and its Committees, including of the Security Committee, shall be delivered to the Security Observer, and he shall be entitled to participate as an observer in each such meeting.

(v) The Security Observer shall have the same right to obtain information from the Company as that of a Director. If the Company believes that specific information requested is commercially sensitive and not required by the Security Observer for fulfillment of his duties, the Company may delay delivery of the information upon notice to the Security Observer. If the Security Observer still believes the information is needed for his duties, the matter shall be brought for decision to the head of the Israeli General Security Service.

(vi) If the Security Observer believes that the Company has made a decision, or is about to make a decision, in a security matter which conflicts with a provision of the Cellular License or the Other Licenses or Section 13 of the Israeli Communications Law (Telecommunications and Broadcasting), 1982 or Section 11 of the Israeli General Security Service Law, 2002, he shall promptly notify the Company in writing of the same. Said notice shall be delivered to the Chairman of the Board of Directors and the chairman of the Security Committee, and shall provide an appropriate defined period of time, in light of the circumstances, in which the Company shall be required to correct the violation or change the decision, to the extent possible.

(f) To the extent required by the Cellular License or the Other Licenses, specific Directors (including the Chairman) and/or officers, and/or a specified percentage of the Directors shall be Israeli Citizens and Israeli Residents and/or have clearance from the Israeli General Security Service.

19. Record Dates

(a) Notwithstanding any provision to the contrary in these Articles, for the determination of the holders entitled to receive notice of and to participate in and vote at a General Meeting or to express consent to or dissent from any corporate action in writing, the Board of Directors may fix, in advance, a record date which shall neither be earlier nor later than is permitted under applicable law. No Persons other than holders of record of Ordinary Shares as of such record date shall be entitled to notice of and to participate in and vote at such General Meeting, or to exercise such other right, as the case may be. A determination of holders of record with respect to a General Meeting shall apply to any adjournment of such meeting, provided that the Board of Directors may fix a new record date for an adjourned meeting.

(b) Subject to the applicable law, the holders entitled to receive payment of any dividend or other distribution or allotment of any rights, shall be the shareholders on the date upon which it was resolved to distribute the dividend or at such later date as shall be determined by, or pursuant to a resolution of, the Board of Directors.

TRANSMISSION OF SHARES

20. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 20(b) have been effectively invoked.

(b) Any Person becoming entitled to a share in consequence of the death of any individual, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors or the Secretary may reasonably deem sufficient of the capacity in which he proposes to act under this Article), shall be registered as a holder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

21. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator of any corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, as being entitled to the shares registered in the name of such shareholder.

(b) The receiver or liquidator of a corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, upon producing such evidence as the Board of Directors or the Secretary may deem sufficient of the capacity in which he proposes to act under this Article, shall be registered as a shareholder in respect of such shares, or may, subject to the provisions as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

22. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

23. Extraordinary General Meetings

The Board of Directors may, whenever it deems fit, convene an Extraordinary General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Sections 63(b) of the Companies Law.

24. Notice of General Meetings

(a) The Company is required to give such prior notice of a General Meeting as required by law, but in any event not less than fourteen (14) days. The Company is not required to deliver personal notice to every shareholder except to the extent required by applicable law. In any event, the accidental omission to give notice of a meeting to any shareholder or the non-receipt of notice by any of the shareholders shall not invalidate the proceedings at any meeting.

(b) The notice of the meeting shall set forth the agenda of the meeting.

(c) A shareholder desiring to request that the Board of Directors include a certain item on the agenda of the meeting pursuant to Section 66(b) of the Companies Law, shall, as a condition to such proposal being considered by the Board of Directors, make such request to the Company in writing at least eight (8) weeks prior to the date of the meeting (or such shorter period as may be determined by the Board of Directors).

PROCEEDINGS AT GENERAL MEETINGS

25. Quorum

(a) Two or more holders of Ordinary Shares (not in default in payment of any sum referred to in Article 12(a) hereof), present in person or by proxy and holding shares conferring in the aggregate at least one-third of the voting power of the Company shall constitute a quorum at General Meetings. Except as set forth in this Article 25, no business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within an hour from the time set for the meeting a quorum is not present, in person or by proxy, the meeting shall stand adjourned to the same day in the next week, at the same time and place, or, if not set forth in the notice of the meeting, to such day and at such time and place as the chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, if a quorum is not present, in person or by proxy, within a half hour from the time set, any two (2) holders of Ordinary Shares (not in default as aforesaid) present in person or by proxy, shall constitute a quorum. Notwithstanding anything in this Article 25 to the contrary, if the meeting was convened upon requisition pursuant to Section 63 or 64 of the Companies Law, the quorum requirement at any adjournment thereof shall be governed by the provisions of the Companies Law.

26. Chairman of Meetings

The Chairman, if any, of the Board of Directors shall preside as chairman at every General Meeting of the Company. If there is no such chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for the meeting or is unwilling to act as chairman or has notified the Company that he will not attend such meeting, the holders of Ordinary Shares present (or their proxies) shall choose someone else to be chairman. The office of chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting (without derogating, however, from the rights of such chairman to vote as a holder of Ordinary Shares or proxy of a shareholder if, in fact, he is also a shareholder or a proxy).

27. Adoption of Resolutions at General Meetings

(a) Unless otherwise indicated herein or required by applicable law, a Shareholders Resolution shall be deemed adopted if approved by an Ordinary Majority.

(b) For the avoidance of doubt, a Shareholders Resolution approving a merger (as defined in the Companies Law) of the Company or an amendment to these Articles shall be deemed adopted if approved by an Ordinary Majority.

(c) Every question submitted to a General Meeting shall be decided by a show of hands, without derogating from voting by written ballot in the events and to the extent required by applicable law or permitted by these Articles to be made available to the shareholders.

(d) A declaration by the chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or defeated, and an entry to that effect in the minutes book of the Company, shall be conclusive evidence of the fact without need of proof of the number or proportion of the votes recorded in favor of or against such resolution.

28. Resolutions in Writing

A resolution in writing signed by all holders of Ordinary Shares of the Company then entitled to attend and vote at General Meetings or to which all such holders of Ordinary Shares have given their written consent (by letter, facsimile, telegram, telex, electronic mail or otherwise), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

29. Power to Adjourn

The chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

30. Voting Power

Subject to the provisions of Article 18 and Article 31(a) and subject to applicable law, and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every holder of Ordinary Shares shall have one vote for each share registered in his name in the Register of Shareholders upon any voting on every resolution, without regard to whether the vote thereon is conducted by a show of hands, by written ballot or by any other means.

31. Voting Rights

(a) No holder of Ordinary Shares shall be entitled to participate and vote in any General Meeting (or to be counted as part of the quorum thereof): (i) unless all calls and other sums payable by him in respect of his shares in the Company have been paid, except if the allotment conditions of the shares provide otherwise, and/or (ii) in respect of any Contravening Holdings.

(b) A company or other entity which is not an individual being a holder of Ordinary Shares of the Company may be represented by an authorized individual at any meeting of the Company. Such authorized individual shall be entitled to exercise on behalf of such holder all the power, which the latter could have exercised if it were an individual shareholder. Upon the request of the chairman of the meeting, written evidence of such authorization (in form acceptable to the chairman) shall be delivered to him. The chairman of the meeting, in his sole discretion, shall be entitled to accept or reject a purported representative.

(c) Any holder of Ordinary Shares entitled to vote at the General Meeting may vote thereat either personally or by proxy (who need not be a shareholder of the Company), or, if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 31(b).

(d) If two or more Persons are registered in the Register of Shareholders as joint holders of any Ordinary Share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Shareholders, all subject to applicable law.

(e) The Board of Directors may determine, in its discretion, the matters, if any, that may be voted upon by written ballot delivered to the Company (without attendance in person or by proxy), as shall be permitted, at a General Meeting, in addition to the matters listed in Section 87(a) of the Companies Law. If the Company disseminates a form of written ballot in connection with a General Meeting, then a vote by a properly completed and delivered written ballot shall be considered a vote at such General Meeting.

(f) Subject to the provisions of applicable law, the Secretary of the Company may, in his discretion, disqualify proxies, proxy cards, written ballots or any other similar instruments, and notify the shareholder who submitted such proxy, proxy card, written ballot, authorization or similar instrument, in the following cases:

(i) If the Secretary reasonably suspects that they are forged;

(ii) If the Secretary reasonably suspects that they are falsified, or given with respect to shares for which one or more proxies or written ballots have been given and not withdrawn; or

(iii) If there is no indication on such proxy, proxy card, written ballot or similar instrument as to whether or not the holding in the Company or the vote of such shareholder requires the approval of the Minister of Communications pursuant to the provisions of the Cellular License or the Other Licenses.

(g) Notwithstanding the foregoing, for as long as DIC is a shareholder of the Company, DIC shall hold whatever voting power that is attached to any and all Ordinary Shares held by the Original Minority Shareholders for any purpose whatsoever. Accordingly, DIC shall be entitled to vote all such shares at all General Meetings and the Original Minority Shareholders shall not be entitled to receive notice with respect to such meetings and/or attend and/or vote at the same. An Original Minority Shareholder that claims or asserts any rights contrary to Article 31(g) shall be deemed to have offered all its shares to DIC at such shares' Book Value in accordance with Article 17 hereof.

For the purpose of this Article 31(g), "**Book Value**" shall mean such amount as shall be determined by the independent auditors of the Company as being equal to all assets of the Company less all liabilities and reserves divided by the number of shares of the Company then outstanding, which determination shall be binding and conclusive and be made in accordance with Israeli generally accepted accounting practice, including however but not limited to the following provisions: (a) the computation of the book value shall be made on the basis of the audited balance sheet of the Company as at the close of the fiscal year of the Company immediately preceding the date of the transfer or other transaction in question contemplated hereunder; (b) no allowance of any kind shall be made for goodwill or any similar intangible asset of the Company; (c) all accounts payable shall be taken at their value as reflected in the said audited balance sheet, less discounts deductible therefrom, and all accounts receivable shall be taken at their value as reflected in the said audited balance sheet, less discount and a reasonable reserve for bad debts; (d) all machinery fixtures and equipment are to be computed at the depreciated value appearing on the books of the Company; (e) inventory of merchandise and supplies shall be computed at cost or market value, whichever is lower; and (f) all accrued and unpaid taxes, of every kind, shall be deducted as liabilities.

Notwithstanding the foregoing, any Ordinary Shares acquired by an Original Minority Shareholder after the Company's initial public offering of its Ordinary Shares shall not be subject to this Article 31(g) (other than Ordinary Shares initially held by an Original Minority Shareholder and subsequently transferred to a third party subject to the restrictions and limitations set forth in Articles 17(a) through 17(j) above).

PROXIES

32. **Instrument of Appointment**

(a) The instrument appointing a proxy shall be substantially in the form provided below or any other usual or customary form that includes the paragraph below regarding the shares represented by such proxy not being Contravening Holdings or such other form as may be approved by the Board of Directors from time to time. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

"I, the undersigned, _____, being a
(name of shareholder)

shareholder of **Cellcom Israel Ltd.** hereby appoints
_____ of _____
(name of proxy) (address of proxy)

as my proxy to attend and vote on my behalf at [any General Meeting of the Company] [the General Meeting of the Company to be held on the ____ day of _____, 2____] and at any adjournment thereof.

Neither the holding nor the voting of the shares to which this proxy relates requires the approval of the Minister of Communications pursuant to Company's telecommunication licenses and are not considered "Contravening Holdings", as this term is defined in the Company's Articles of Association.

Signed this ____ day of _____, 2__ .

_____"
(signature of shareholder)

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall be delivered to the Company (at its registered office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than seventy-two (72) hours before the time fixed for the meeting at which the Person named in the instrument proposes to vote, unless otherwise determined by the chairman of the meeting.

(c) The rights of a shareholder who is legally incapacitated to attend and/or vote at a General Meeting may be exercised by his guardian.

33. Effect of Death of Appointer or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument) or the revocation of the appointment, provided that no written notice of such death or revocation shall have been received by the Company or by the chairman of the meeting before such vote is cast and provided, further, that the appointing shareholder, if present in person at said meeting, may revoke the authority granted by the execution of a proxy by filing with the Company a duly executed instrument appointing another proxy, on or prior to the deadline for the delivery of proxies, or by voting in person at the General Meeting.

BOARD OF DIRECTORS

34. Powers of Board of Directors

(a) In General

The oversight of the management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in a General Meeting. The authority conferred on the Board of Directors by this Article 34 shall be subject to the provisions of the Companies Law, of these Articles and any resolution consistent with these Articles adopted from time to time by a General Meeting, provided, however, that no such resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such resolution had not been adopted.

(b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow any sum or sums of money for the purposes of the Company, and also may cause the Company to secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid share capital for the time being.

(c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall deem fit, and the Company may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time deem fit.

(d) Protective Measures

The Board of Directors may, at any time in its sole discretion, adopt protective measures to prevent or delay a coercive takeover of the Company, including without limitation the adoption of a "Shareholder Rights Plan."

35. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present (in person, by means of a conference call or any other device allowing each director participating in such meeting to hear all the other directors participating in such meeting) shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present, entitled to vote thereon (as conclusively determined by the Secretary, and in the absence of such determination, by the chairman of the meeting) and voting thereon.

(c) A resolution may be adopted by the Board of Directors without convening a meeting if all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Secretary, and in the absence of such determination, by the Chairman of the Board of Directors), have given their written consent (in any manner whatsoever) not to convene a meeting. Such resolution shall be adopted if approved by a majority of the Directors lawfully entitled to vote thereon (as determined as aforesaid). The Chairman of the Board of Directors shall sign the instrument evidencing any resolutions so adopted, including the decision to adopt said resolutions without a meeting.

36. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Law and these Articles, delegate any of its powers to committees, each consisting of two or more Persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "**Committee of the Board of Directors**"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, *mutatis mutandis*, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by the Companies Law or any regulations adopted by the Board of Directors under this Article. Notwithstanding the foregoing, the chairman of a Committee of the Board of Directors shall not have a casting vote. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 49, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as any executive officers of the Company, and may terminate the service of any such Person, and also may cause the Company to engage employees, agents and independent contractors and to terminate the service of any such Person, all as the Board of Directors may deem fit. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the compensation terms of all such Persons, and may require security in such cases and in such amounts as it deems fit.

37. Number of Directors

(a) The Board of Directors shall include at least five (5) Directors.

(b) The Board of Directors shall include independent Directors as required to comply with the applicable requirements of any law and the regulations of any stock exchange on which the securities of the Company are listed. The requirements of the Companies Law applicable to an External Director shall prevail over the provisions of these Articles to the extent that these Articles are inconsistent with the Companies Law, and shall apply to the extent that these Articles are silent.

38. Election and Removal of Directors

(a) For so long as and to the extent required under the Cellular License or any of the Other Licenses, at least 10% of the Directors shall be Israeli Directors and shall be appointed and removed only by the Founding Shareholders who are Israeli Shareholders by means of delivering a written notice from such Israeli Shareholders to the Company advising it of such appointment or removal, as applicable, provided, however, that: (i) in the event that the Board of Directors includes fourteen (14) Directors or less, such Israeli Shareholders shall be entitled to appoint one (1) Israeli Director, and (ii) in the event that the Board of Directors includes between fifteen (15) and twenty-four (24) Directors, such Israeli Shareholders shall be entitled to appoint two (2) Israeli Directors. In the event that there is only one Founding Shareholder who is also an Israeli Shareholder, the written notices regarding the appointment or removal of the Israeli Directors shall be delivered by such shareholder, and in the event that there are two or more Founding Shareholders who are also Israeli Shareholders, the written notices regarding the appointment or removal of the Israeli Directors shall be delivered jointly by the holder or holders of the majority of the Ordinary Shares held by Founding Shareholders who are also Israeli Shareholders. The provisions of the other subsections of Article 38 (other than Article 38(e), to the extent that an Israeli Director was appointed for a specific term) shall not apply to any Israeli Director who may be appointed to and removed from office in accordance with this Article 38(a).

(b) The Directors shall be elected at each Annual General Meeting and shall serve in office until the close of the next Annual General Meeting, unless their office becomes vacant earlier in accordance with the provisions of these Articles. Each Director shall be elected by a Shareholders Resolution at the Annual General Meeting; provided, however, that External Directors shall be elected in accordance with the Companies Law. The elected Directors shall commence their terms from the close of the Annual General Meeting at which they are elected, unless a later date is stated in the resolution with respect to their appointment.

(c) Notwithstanding the other provisions of these Articles, one or more Directors may be appointed by the Board of Directors or elected by a Shareholders Resolution at an Extraordinary General Meeting. Any Director appointed or elected in such manner (excluding an External Director) shall serve in office until the election of Directors at the next Annual General Meeting, unless his office becomes vacant earlier in accordance with the provisions of these Articles.

(d) An elected External Director shall commence his term from the date of, and shall serve for the period stated in, the resolution of the General Meeting at which he was elected, unless his office becomes vacant earlier in accordance with the provisions of the Companies Law.

(e) A Director may serve for multiple terms, provided, however, that the terms of an External Director shall be limited in accordance with applicable law.

(f) The General Meeting shall be entitled to remove any Director(s) from office by a Shareholder Resolution, all subject to applicable law. The Board of Directors shall be entitled to remove from office any Director(s) appointed by the Board of Directors.

39. Qualification of Directors

No Person shall be disqualified to serve as a Director by reason of his not holding shares in the Company.

40. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, provided, however, that if they number less than the minimum number set forth in Article 37(a) hereof, they may only act in an emergency (as determined in their absolute discretion), and may appoint Directors and/or call a General Meeting of the Company for any purpose.

41. Vacation of Office

(a) The office of a Director shall be vacated, *ipso facto*, upon his death, or if he be found mentally incapacitated, or, upon the conviction of a crime enumerated in the Companies Law.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) The office of a Director shall be vacated upon his removal from office pursuant to Article 38(a) or Article 38(f) hereof, as applicable.

42. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved pursuant to the provisions of the Companies Law. Except as otherwise provided by applicable law, reimbursement of expenses incurred by a Director in carrying out his duties as such shall be made pursuant to the policy in this respect as determined by the Board of Directors and in effect from time to time.

43. Conflict of Interests

(a) Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Director in which contract or business such Director has a personal interest, directly or indirectly; and may enter into any contract of otherwise transact any business with any third party in which contract or business a Director has a personal interest, directly or indirectly.

(b) A transaction as set forth in Section 270(1) of the Companies Law, provided that such transaction is not an Extraordinary Transaction (as such term is defined in the Companies Law), may be approved by:

(i) the Company's Audit Committee – without any monetary limit, or

(ii) the Company's Board of Directors – without any monetary limit, or

(iii) the Company's authorized signatories approving such transaction on behalf of the Company, in accordance with the Company's signatory rights, (provided that no such approval may be given by any signatory who has or is deemed to have a personal interest in the transaction) – without any monetary limit as to transactions related to the provision of communications services and equipment by the Company, and with a limit of up to an annual amount of NIS 250,000 per transaction as to other transactions.

44. Alternate Directors

(a) A Director may, by written notice to the Company, appoint an individual as an alternate for himself ("**Alternate Director**"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. The appointment of an Alternate Director by any Director other than the Chairman of the Board of Directors shall be subject to the consent of the Chairman of the Board of Directors, and the appointment of an Alternate Director by the Chairman of the Board of Directors shall be valid unless objected to by the majority of the other Directors. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period, but will expire upon the expiration of the appointing Director's term, and shall be for all purposes.

(b) Any notice given to the Company pursuant to Article 44(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself, and provided further that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present at such meeting.

(d) An Alternate Director shall alone be responsible for his own acts and defaults, and he shall not be deemed the agent of the Director who appointed him.

(e) The office of an Alternate Director shall be vacated under the circumstances, *mutatis mutandis*, set forth in Article 41, and such office shall *ipso facto* be vacated if the Director who appointed such Alternate Director ceases to be a Director.

(f) Notwithstanding Article 44(a), (i) no Person shall be appointed as the Alternate Director for more than one Director and (ii) except as otherwise specifically permitted by the Companies Law, (A) no External Director may appoint an Alternate Director and (B) no Director may serve as an Alternate Director.

PROCEEDINGS OF THE BOARD OF DIRECTORS

45. Meetings

(a) The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Board of Directors deems fit, provided, however, that the Board of Directors must meet at least once every three (3) months. Notice of the meetings of the Board of Directors shall be sent to each Director at the last address that the Director provided to the Company, or via telephone, facsimile or e-mail message.

(b) Any two Directors may, at any time, and the Secretary, upon the request of such Directors, shall, convene a meeting of the Board of Directors, but not less than four (4) days written notice shall be given of any meeting so convened, provided that the Chairman of the Board of Directors may convene a meeting of the Board of Directors upon not less than twenty-four (24) hours written notice, and further provided, that the Board of Directors may convene a meeting without such prior notice with the consent of all of the Directors who are lawfully entitled to participate in and vote at such meeting (as conclusively determined by the Secretary, and in the absence of such determination, by the Chairman of the Board of Directors). In urgent situations, a meeting of the Board of Directors can be convened without any prior notice with the consent of a majority of the Directors, including a majority of those who are lawfully entitled to participate in and vote at such meeting (as conclusively determined by the Secretary, and in the absence of such determination, by the Chairman of the Board of Directors). The notice of a meeting of the Board of Directors shall describe the agenda for such meeting in reasonable detail.

46. Quorum

Unless otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Secretary, and in the absence of such determination, by the Chairman of the Board of Directors).

47. Chairman of the Board of Directors

(a) The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in his place, provided, however, that for as long as (i) the members of IDB Group, collectively, are the largest shareholders of the Company and (ii) they hold collectively at least 35% of the voting power in the Company, then the Chairman shall be designated by DIC by means of a written notice delivered to the Company by DIC.

(b) The Chairman, if any, of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for the meeting, or is unwilling to act as Chairman or has notified the Company that he will not attend such meeting, the Directors present shall choose one of their number to be the chairman of such meeting.

(c) The Chairman of the Board of Directors designated by DIC pursuant to Article 47(a) above shall have a casting vote at the meetings of the Board of Directors in the event of a tied vote.

48. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any Person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the process or in the appointment of the participants in such meetings or any of them or any Person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

49. General Manager

The Board of Directors may from time to time appoint one or more Persons, whether or not Directors, as general managers (the "**General Manager(s)**") of the Company and may confer upon such Person(s), and from time to time modify or revoke, such title(s) (including Managing Director, President, Chief Executive Officer, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such Person and the Company) fix his or their compensation terms, remove or dismiss him or them from office, or assume his or their authorities with respect to a specific matter or period of time.

MINUTES

50. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors and any Committees thereof shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting shall constitute *prima facie* evidence of the matters recorded therein.

DIVIDENDS

51. Declaration and Payment of Dividends

(a) Subject to the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be appropriate. Subject to the Companies Law, the Board of Directors shall determine the time for payment of such dividends, and the record date for determining the shareholders entitled thereto.

(b) The Company's obligation to pay dividends or any other amount in respect of shares, may be set-off by the Company against any indebtedness, however arising, liquidated or non-liquidated, of the Person entitled to receive the dividend. The provisions contained in this Article shall not prejudice any other right or remedy vested with the Company pursuant to these Articles or otherwise.

52. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the shareholders entitled thereto in proportion to their respective holdings of the shares in respect of which such dividend is being paid.

53. Interest

No dividend shall carry interest as against the Company.

54. Form of Dividend

Upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of cash or specific assets of the Company or by distribution of securities of the Company or of any other companies, or in any one or more of such ways.

55. Retention of Dividends

The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any Person is, under Articles 20 or 21, entitled to become a shareholder, or which any Person is, under said Articles, entitled to transfer, until such Person shall become a shareholder in respect of such share or shall transfer the same.

56. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by and for the benefit of the Company until claimed. The payment by the Company of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a Person who would have been entitled thereto had the same not reverted to the Company.

57. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check sent through the post to, or left at, the registered address of the Person entitled thereto or by transfer to a bank account specified by such Person (or, if two or more Persons are registered in the Register of Shareholders as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such Persons or to his bank account), or to such Person and at such address as the Person entitled thereto may by writing direct, in each such case subject to applicable law. Every such check shall be made payable to the order of the Person to whom it is sent, or to such other Person as the Person entitled thereto as aforesaid may direct, and payment of the check by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check shall be sent at the risk of the Person entitled to the money represented thereby.

FINANCIAL STATEMENTS

58. Financial Statements

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No shareholder, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by a Shareholders Resolution. The Company shall not be required to send copies of its financial statements to the shareholders.

AUDITORS

59. Outside Auditor

The outside auditor of the Company shall be recommended by the Audit Committee and elected by Shareholder Resolution at each Annual General Meeting and shall serve until the next Annual General Meeting or its earlier removal or replacement by Shareholder Resolution. The Board of Directors shall have the authority to fix, in its discretion, the remuneration of the auditor for audit and any other services, or to delegate such authority to the Audit Committee, provided that the Board of Directors reports such remuneration to the Annual General Meeting.

60. Internal Auditor

The internal auditor of the Company shall be subject to the administrative supervision of the General Manager and shall present all its proposed work plans to the Board of Directors, which shall have the authority to approve them subject to any modifications in its discretion.

EXCULPATION, INSURANCE AND INDEMNITY

61. Exculpation, Indemnity and Insurance

(a) For purposes of this Article 61, the term "Office Holder" shall mean every Director and every officer of the Company defined as "*Nosei Misra*" in the Companies Law.

(b) Subject to the provisions of the Companies Law, the Company may exculpate an Office Holder in advance from all or some of the Office Holder's responsibility for liability resulting from the Office Holder's breach of the Office Holder's duty of care to the Company.

(c) Subject to the provisions of the Companies Law, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on or incurred by the Office Holder in respect of an act performed in his capacity as an Office Holder, and in his capacity as an office holder of any other company in which he serves in such capacity at the request of the Company as follows:

(i) a financial obligation imposed on him in favor of another Person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;

(ii) reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding was concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended (the "Securities Law"), and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; and

(iii) reasonable litigation expenses, including attorneys' fees, expended by an Office Holder or charged to the Office Holder by a court, in a proceeding instituted against the Office Holder by the Company or on its behalf or by another Person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

The Company may undertake to indemnify an Office Holder as aforesaid, (aa) prospectively, provided, in respect of Article 61(c)(i) that the undertaking is limited to events which, in the opinion of the Board of Directors, are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify, and (bb) retroactively.

(d) Subject to the provisions of the Companies Law, the Company may enter into a contract for the insurance of all or a portion of the liability of any Office Holder imposed on the Office Holder in respect of an act performed in his capacity as an Office Holder, in respect of each of the following:

(i) a breach of his duty of care to the Company or to another Person;

(ii) a breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;

(iii) a financial obligation imposed on him in favor of another Person; or

(iv) reasonable litigation expenses, including attorney fees, incurred by the Office Holder as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

(e) The provisions of this Article 61 are not intended, and shall not be construed, to restrict the Company in any manner in respect of the procurement of insurance and/or payment of indemnification (i) in connection with any Person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law.

Any amendment to the Companies Law, the Securities Law or any other applicable law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 61 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law, the Securities Law or such other applicable law.

NOTICES

62. Notices

(a) Any written notice or other document may be served by the Company upon any shareholder either personally, or by facsimile transmission, or by sending it by prepaid mail (airmail or overnight air courier, if being sent from any country to a destination outside such country) or electronic mail addressed to such shareholder at his address as set forth in the Register of Shareholders or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any shareholder upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company, or by facsimile transmission, or by sending it by prepaid registered mail (airmail or overnight air courier if being sent from any country outside Israel) to the Company at its registered office. Any such notice or other document shall be deemed to have been served (i) in the case of mailing, three (3) days after it has been posted, or when actually received by the addressee if sooner than three (3) days, after it has been posted; (ii) in the case of overnight air courier, on the second business day following the day sent; (iii) in the case of personal delivery, on the date such notice was actually tendered in person to such shareholder (or to the Secretary or the General Manager); (iv) in the case of facsimile transmission, on the date on which the sender receives automatic electronic confirmation that such notice was successfully transmitted; or (v) in the case of electronic mail, on the date on which the sender receives telephonic or written confirmation that such notice was received. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 62(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which Persons are jointly entitled, be given to whichever of such Persons is named first in the Register of Shareholders, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any shareholder whose address is not specified in the Register of Shareholders, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

(d) Notwithstanding anything to the contrary herein, notice by the Company of a General Meeting which is published in two (2) daily newspapers in the State of Israel, if at all, shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel.

(e) Notwithstanding anything to the contrary herein, notice by the Company of a General Meeting or any other matter which is published in one (1) daily newspaper in the United States or via one international wire service shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located outside the State of Israel.

(f) The date of publication of a notice of a General Meeting as set forth in Article 62(d) or Article 62(e), as applicable, and the date of the meeting shall be counted as part of the days comprising any notice period with respect to such General Meeting.

(g) Without derogating from Article 31(g), all notices sent by the Company to an Original Minority Shareholder, if sent, shall also be sent by the Company to DIC.

RIGHTS OF SIGNATURE

63. Rights of Signature

The Board of Directors shall be entitled to authorize any Person or Persons (who need not be officers or Directors) to act and sign on behalf of the Company, and the acts and signature of such Person(s) on behalf of the Company with the Company's stamp or printed name shall bind the Company insofar as such Person(s) acted and signed within the scope of his or their authority.

WINDING UP

64. Winding Up

(a) A Shareholders Resolution approved by 75% of the voting shares represented at such meeting in person or by proxy is required to approve the voluntary winding up of the Company.

(b) If the Company be wound up, liquidated or dissolved, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company legally available for distribution among the shareholders, after payment of all debts and other liabilities of the Company, shall be distributed to the shareholders in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made, provided, however, that if a class of shares has no nominal value, then the assets of the Company legally available for distribution among the holders of such class shall be distributed to them in proportion of their respective holdings of the shares in respect of which such distribution is made.

*TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION*

INDENTURE FOR SERIES L DEBENTURES

Made and executed in Tel Aviv, on January 21, 2018

Between

Cellcom Israel Ltd. and Strauss Lazar Trust Company (1992) Ltd.

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**TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION**

INDENTURE

Made and executed in Tel Aviv, on January 21, 2018

- Between:**
- Cellcom Israel Ltd.**
of 10 HaGavish St., Netanya
Telephone: 052-9989595
Fax: 09-8607986
(the “**Company**” or “**Cellcom**”) of the First Part;
- And:**
- Strauss Lazar Trust Company (1992) Ltd.**
of 17 Yitzhak Sadeh St., Tel Aviv
Telephone: 03-6237777
Fax: 03-5613824
(the “**Trustee**”) of the Second Part;
- Whereas** On August 9, 2017, the Company published a shelf prospectus (the “**Prospectus**” or the “**Shelf Prospectus**”), whereby the Company might issue, in the framework of Shelf Offering Reports, *inter alia*, series of debentures that are not convertible into shares of the Company; and
- Whereas** The Trustee represents that it is a private company that is limited in shares, incorporated in Israel, the main purpose of which is to engage in trusts, and that it complies with all of the requirements and terms of qualification under any law, including under the Securities Law, 5728-1968, to act as a trustee for the Debentures contemplated by this Indenture; and
- Whereas** The Trustee declares that it is under no impediment according to any law or agreement by which it is bound against in its engagement with the Company in this Indenture, including in respect to conflicts of interests which prevent its engagement with the Company as aforesaid; and the Company represents that there is no impediment under any law or agreement against effecting an issuance of the Debentures and/or against its engagement with the Trustee in this Indenture; and
- Whereas** On December 24, 2017, the Debentures were rated (as defined in Section 1.7 below) with the rating ilA+ by Standard & Poor’s Maalot Ltd.; and
- Whereas** The Company has no personal interest in the Trustee and the Trustee has no personal interest in the Company; and
- Whereas** The Company received all the required authorizations to perform said issuance, in accordance with any law and/or agreement and there is no hindrance to the Company performing the issuance in accordance with any law and/or agreement.

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Whereas The Trustee has agreed to operate as a trustee of the Holders of the Debentures contemplated by this Indenture, according to the terms and conditions of the trust specified in this Indenture below;

NOW, THEREFORE, it has been agreed, declared and stipulated between the parties as follows:

1. **Interpretation and Definitions**

- 1.1. The preamble of this Indenture and the schedules thereto constitute an integral part hereof.
- 1.2. The division of this Indenture into sections as well as the provision of headings to sections, were done for purposes of convenience and as reference only, and may not be used for interpretation.
- 1.3. Anywhere in this Indenture stating "subject to any law" (or a similar expression), the intention is it being subject to any mandatory law.
- 1.4. Anything stated in this Indenture in the plural shall also imply the singular and vice versa, and anything stated in the masculine shall also imply the feminine and vice versa, and anything referring to a person, shall also imply to a corporation, and all when there is no other explicit or implicit provision herein or if the content of matters or context thereof does not mandate otherwise.
- 1.5. The Company undertakes that the Series L Debentures which shall be initially issued by virtue of the shelf offering report pursuant to which the Series L Debentures shall be initially offered, shall be registered for trade on TASE.
- 1.6. In any matter not mentioned in this Indenture and in any event of a discrepancy between the provisions of Israeli law that cannot be deviated from and this Indenture, the parties shall act in accordance with the provisions of Israeli law. In any case of a discrepancy between the provisions described in the Prospectus and/or the Shelf Offering Report whereby the Series L Debentures will be issued for the first time in connection with this Indenture and the accompanying documents thereto, the provisions of this Indenture shall prevail.
- 1.7. The terms specified below shall have in this Indenture the meaning stated alongside them, unless another intention is implicated from the content of matters or the context thereof, or if explicitly stated otherwise:

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This or the “ Indenture ” -	This Indenture, including the schedules attached thereto, constituting an integral part thereof, in their form as amended from time to time.
The “ Series L Debentures ” or the “ Debentures ” -	Registered Series L Debentures of the Company, the terms of which will be according to the Debenture Certificate (the form of which is attached in the First Schedule hereof), which shall be issued from time to time by the Company, according to its sole discretion.
The “ Trustee ” -	Strauss Lazar Trust Company (1992) Ltd. and/or anyone who shall serve from time to time as a trustee of the Debenture Holders pursuant to this Indenture.
The “ Register ” -	The register of the Debenture Holders, as set forth in Section 28 of this Indenture.
“ Debenture Certificate ” -	A debenture certificate, the form of which appears in the First Schedule of this Indenture and which shall be issued according to the terms of this Indenture.
The “ Law ” or the “ Securities Law ” -	The Securities Law, 5728-1968 and the regulations promulgated thereunder, as in effect from time to time.
“ TASE ” -	The Tel Aviv Stock Exchange Ltd.
“ TASE Clearinghouse ” -	The Tel Aviv Stock Exchange Clearing House Ltd.
The “ Debenture Holders ” and/or the “ Debenture Owners ” and/or the “ Holder ” -	Shall bear the meaning ascribed to the terms “Holder” and “Holder of Certificates of Indebtedness” in Section 35A of the Securities Law.
“ Business Day ” -	Any day on which the TASE Clearinghouse and most of the banks in Israel are open for the performance of transactions.

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“Trading Day” -	Any day on which trade is carried out on the Tel Aviv Stock Exchange Ltd.
“Special Resolution” -	A resolution adopted at a general meeting of the Debenture Holders, in which a legal quorum was present as specified in Section 14 of the Second Schedule of the Indenture, and which was adopted (whether in the original meeting or the adjourned meeting) by a majority of at least seventy five percent (75%) of the overall votes of the participants counted in the vote, not including abstainers.
“TASE Directives”	The provisions of the TASE rules, the regulations thereunder and bylaws of the TASE Clearinghouse (as applicable). It is clarified, that the Debentures, their terms and the terms of this Indenture, shall be subject to the TASE Directives in their form as in effect from time to time, for as long as the Debentures are traded on TASE.
The “Companies Law”	The Companies Law, 5759-1999, in its form as in effect from time to time.
The “Transfer Agent”	Israel Discount Bank Nominees Ltd. or any other nominee company with which the Company shall engage, at its sole direction, provided that all of the Company’s series of securities shall be registered in the name of the same nominee company
“Rating Agency”	Means as such term is defined in the Securities Regulations (Details of the Prospectus and Draft Prospectus – Structure and Form), 5729-1969, and which was approved by the Capital Market Commissioner.

2. General

- 2.1. The Trustee's execution of this Indenture shall not constitute an expression of its opinion as to the quality of the Series L Debentures or the advisability of investment therein.
- 2.2. The Series L Debentures shall equally rank, *pari passu*, among themselves in respect of the Company's undertakings pursuant to the Debentures and without any preference or priority of one over the other.

3. Issuance of the Debentures

The Company:

- 3.1. Shall issue Registered Series L Debentures, which will mature (principal) as provided in the Terms and Conditions Overleaf, to the First Schedule of this Debenture. The principal of the Debentures shall bear an interest at a fixed rate which shall be determined in a tender with the initial offering of the Debentures. The interest on the principal of the Debentures shall be paid on each of the dates, as provided in the Terms and Conditions Overleaf to the First Schedule of this Debenture. The Debentures shall not be linked (principal and interest) to any index or currency whatsoever.
- 3.2. For additional details, including in respect of an adjustment mechanism of the interest rate as a result of a change in rating of the Debentures, see Sections 2 and 3 of the Terms and Conditions Overleaf. For details regarding the Company's entitlement to effect an early redemption and regarding an early redemption initiated by TASE of the Debentures, see Section 9 below.

If after the date of the initial issuance of the Debentures, the Debentures Series shall be expanded by the Company, the Holders of Series L Debentures which will be issued within the framework of the expansion of such series, shall not be entitled to receive payment on account of principal and/or interest, for the Debentures in respect of which the effective date for payment shall occur prior to their date of issuance as aforesaid.

- 3.3. The Company hereby undertakes to pay all of the amounts of the principal, interest (including arrears interest, and adjusted interest in the event of a downgrade beyond the Downgraded Rating as defined in Section 2.7 to the Terms and Conditions Overleaf to the First Schedule, to the extent applicable, and including the arrears interest, to the extent applicable) and to comply with all of the other conditions and undertakings imposed thereon pursuant to the terms of the Debentures and this Indenture.

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4. **Appointment of the Trustee; Duties of the Trustee**

- 4.1. The Company hereby appoints the Trustee as a first trustee for the Holders of the Debentures, in accordance with the provisions of Section 35B of the Securities Law.
- 4.2. The term of appointment of the first trustee and its reappointment or the appointment of another trustee upon its termination thereof, shall be in accordance with the provisions of the law. Should the first trustee be replaced, the provisions of Sections 29.2 to 29.4 below shall apply; all – subject to the provisions of any law.
- 4.3. The duties of the Trustee shall be in accordance with any law and this Indenture.

5. **Expansion of the Debenture Series and Issuance and Allocation of Additional Debentures and Securities**

- 5.1. The Company shall be entitled, from time to time, without requiring an approval from the Trustee and/or the Holders of the Series L Debentures existing at the time, to expand the Debentures and to issue additional Debentures (whether through a private offering, through the framework of a Prospectus, according to a Shelf Offering Report or otherwise), including to an Affiliated Holder as defined in Section 8 below, at any price and in any manner that the Company shall deem fit, including at a discount or a premium rate (including with no discount or premium) different than those that prevailed (if any) in other issuances which were carried out for Debentures, if any were made, provided that it shall provide prior notice to the Trustee in respect thereof. The Trustee shall serve, subject to the provisions of any law and the Indenture, as a trustee for the Debentures, as they shall be from time to time in circulation, also in the case of an expansion of a series and the consent of the Trustee to the service as aforesaid for the expanded series, will not be required. Series L Debentures which will be in circulation and additional Series L Debentures, which will be issued (if any) as stated in this Section above, shall constitute (commencing on the date of issuance thereof) one series for all intents and purposes, and this Indenture shall apply also in respect of all of such additional Series L Debentures. It shall be clarified that in any event of an expansion of a Debenture Series, should the discount rate that shall be determined in the context of a Debenture issuance be higher than the series' discount rate immediately prior to the expansion thereof (including without discount), there may be cases where tax shall be withheld for discount fees at a rate that is higher than the discount fees determined for the Debenture Holder prior to the expansion of the Series, whether or not the approval of the Tax Authority for the determination of a uniform discount rate for the series shall have been obtained.

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Should the discount rate that shall be determined for the Series L Debentures due to an expansion of the series be different to the discount rate of the Series L Debentures existing in circulation at such time, the Company shall file a request, prior to the expansion of the series, to the Tax Authority in order to receive its approval whereby in respect of the tax withholding from the discount fees for the Debentures, a uniform discount rate shall be determined for the Debentures, according to a weighted formula taking into account the various discount rates of the same series, if any. In case such approval is obtained, the Company shall calculate the weighted discount rate for all of the Debentures prior to the date of expansion of the series, and shall publish the uniform weighted discount rate for the entire Series in an immediate report, prior to the expansion of the series as aforesaid, and shall withhold tax at the maturity dates of the Debentures according to such weighted discount rate and pursuant to the provisions of the law. Should such approval not be obtained, the Company shall announce in an immediate report, prior to the issuance of the Debentures as a result of the expansion of the series of the failure to obtain such approval, and that the uniform discount rate shall be the highest discount rate created for the series. The Company shall withhold tax upon the maturity of the Debentures, according to the discount rate that shall be reported as aforesaid. Therefore, there may be cases where the Company shall withhold tax for discount fees at a rate higher than the discount fees determined for a Debenture Holder prior to the expansion of the Series. In such event, a Holder holding the Debentures prior to the expansion of the series and until the maturity of the Debentures, shall be entitled to file a tax report with the Tax Authority and be refunded for the tax withheld from the discount fees, to the extent he is entitled to such refund under law.

Notwithstanding the foregoing, an additional issuance of additional Debentures by way of expansion of a series, shall be effected subject to the following: (1) the additional issuance of such Debentures in itself (and not any other reason or circumstance existing prior to such issuance) shall not derogate from the rating of such Debenture Series prior to the expansion. In any event of such additional issuance, the Company shall inform the Trustee in writing, prior to the additional issuance as aforesaid, that such additional issuance complies with said condition. The Company shall attach the notice of the Rating Agency to the notice to the Trustee. The Trustee shall rely on the notice of the Rating Agency and shall not be required to perform additional examinations. It is clarified that the Company's undertaking as set forth in this Section shall apply only to additional issuances of Series L Debentures by way of a series expansion, and not in respect of the issuance of other series of debentures existing in circulation at such time by way of a series expansion, nor in respect of the issuance of other new securities, whether rated or not; (2) at the date of the additional issuance the Company shall comply with the financial covenant specified in Sections 10.1.17 and 10.1.18 of this Indenture in accordance with its financial statements last published prior to the date of the additional issuance, and after the effectuation of the additional issuance; (3) on the date of expansion no cause for acceleration of the Debenture exists. In addition, the Company shall provide the Trustee, at least 7 days prior to the actual effectuation of the additional issuance, with a written approval, signed by the senior financial officer at the Company, that the Company shall comply with the financial covenant, and that no cause for acceleration exists, as aforesaid.

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- 5.2. In addition and without derogating from the aforesaid, the Company reserves the right to issue at any time additional series of debentures and/or other securities, of any type and kind whatsoever, without requiring the approval from the Trustee and/or the Holders existing at the time, whether or not they shall confer a conversion right in the Company's securities, and under terms of maturity, interest, linkage, collateral and other terms as it shall deem fit, whether they are preferable to the terms of the Debentures in circulation, equal thereto or inferior thereof.
- 5.3. The Company undertakes not to issue series of new debentures having a preferred maturity rank to that of the Series L Debentures (including upon dissolution of the Company), other than debentures series which shall be secured by way of a specific pledge or as specified in Section 6.1 and 6.2 below.
- 5.4. Nothing stated in this Section above shall derogate from any rights of the Trustee and/or the Holders of Debentures pursuant to this Indenture, if any.
6. **Negative Pledge Undertaking**
- 6.1. Subject to Section 6.2 below, as long as the Debentures are yet to be fully discharged, the Company shall not create and shall not agree to create in favor of any third party whatsoever, any pledges of any type and kind whatsoever at any rank, on its assets and rights, for securing any debt or undertaking whatsoever, unless it shall address the Trustee in writing prior to the creation of the pledge and inform it thereof, and in addition to such notice: (1) shall obtain the prior consent of the Debenture Holders, by Special Resolution, permitting the Company to create the pledge in favor of the third party; or, **alternatively** – (2) the Company shall create, in coordination with the Trustee, in favor of the Debenture Holders, concurrently with the creation of the pledge in favor of the third party, a pledge of the same kind, on the same asset and ranking equally, *pari passu*, with the third party for securing the full debt toward the Holders, and that such pledge shall be in force and effect for as long as the Debentures are yet to be fully discharged, or the pledge towards the third party is removed, the earliest of both. The Company shall provide the Trustee with an original attorney certification whereby the pledge that the Company intends to create in favor of the Debenture Holders complies with said condition. The Company's undertaking specified in this Section above shall be referred to as the "**Negative Pledge Undertaking**".

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- 6.2. Notwithstanding the foregoing, it is clarified, that the Negative Pledge Undertaking shall not apply to each of the following actions and pledges:
- 6.2.1. Creation of a fixed pledge on assets that shall be purchased by the Company after the initial issuance of the Series L Debentures (“**Said Assets**”), if the undertakings which are secured by such pledges were created for the purpose of purchasing Said Assets and/or for securing loans and/or credit received thereby for the discharge of loans or credit received for the purpose of purchasing Said Assets, provided that no pledges on additional assets over and above Said Assets be created as a result thereof.
 - 6.2.2. Creation of a fixed pledge on those parts of the Company’s assets that shall be expanded for the purpose of securing loans or credit received for the purpose of expansion of such assets.
 - 6.2.3. Pledge of assets or rights that were purchased (or that shall be purchased) under a pledge that was created prior to the purchase thereof.
 - 6.2.4. Rights of set-off, lien, collateral provided in the context of financial assets (derivatives etc.), that are provided to banks or financial institutions in the ordinary course of business therewith, and transfers for exposure hedging regulated under the Financial Asset Agreement Law, 5766-2006.
 - 6.2.5. A symbolic pledge (such as a deposit pledged at a nominal amount for securing debentures).
 - 6.2.6. A pledge or lien created by virtue of the law.
 - 6.2.7. Pledge of assets which were sold by the Company and were fully paid for prior to the date of creation of the pledge, but the registration of the change of ownership therein in the name of the purchaser is yet to be completed.
- 6.3. In the context of the quarterly report to be delivered to the Trustee as specified in Section 31.3 below, the Company shall declare that it has complied with the undertaking set forth in Section 6.1 above, such affidavit bearing the signature of the senior financial officer at the Company, while specifying relevant explanations (to the extent necessary), and shall attach an updated pledge printout of the Company. The Trustee shall rely on the Company’s confirmation and shall not be required to perform any further examination.

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- 6.4. Whenever the Company shall create a pledge in favor of the Holders as set forth in sub-section (2) of Section 6.1 above, and such pledge requires registration in the pledge register maintained with the Registrar of Companies or any other register maintained under any law, including for the purpose of perfecting the pledge, the pledge shall be deemed duly registered only after the Company have provided the Trustee with all of the following documents: (1) a pledge document whereby the pledge was registered in favor of the Trustee, bearing the Company's original signature and originally stamped as "received" by the official stamp of the bureau of the Registrar of Companies or any other bureau or registrar as shall be required under any law, bearing a date which is no later than twenty one (21) days of the date of execution of the pledge document; (2) details of mortgages and pledges notice (Form 10), originally stamped as "received" by the bureau of the Registrar of Companies or any other bureau or registrar as shall be required under any law, bearing a date which is no later than twenty one (21) days of the date of creation of the notice; (3) an original certificate of pledge registration from the Registrar of Companies or any other bureau or registrar as shall be required under any law; (4) a pledges printout from the Registrar of Companies or any other bureau or registrar as shall be required under any law under which the aforesaid pledge was registered; (5) an affidavit by a senior officer of the Company whereby there is no pledge contradicting or conflicting with the Company's undertakings toward third parties, all in a form which shall be acceptable to the Trustee pursuant to its reasonable discretion; (6) a legal opinion issued by the Company's legal advisor, *inter alia*, in respect of the nature of the rights of the pledger in the pledged asset, the manner of registration of the pledge, its validity, creditor priority, legality and the fact that it is exercisable and enforceable against the pledging entity under the law applying in Israel, in a form acceptable to the Trustee, pursuant to its reasonable discretion.

Unless expressly provided otherwise in this Indenture, the Company shall be entitled to sell, lease, deliver and/or transfer in any other manner, its property, in whole or in part, in any manner whatsoever, in favor of whom it deems fit, without requiring any consent by the Trustee and/or Debenture Holders.

Other than the Negating Pledge Undertaking specified above, Debentures are not secured by any collateral, pledge or otherwise.

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For the avoidance of doubt, it is clarified, that the Trustee is not obligated to examine, and de-facto the Trustee did not examine and will not examine, the need to provide collateral for securing the payments to the Holders of Debentures. The Trustee was not requested to perform and de-facto did not perform and will not perform, a financial, accounting or legal due diligence review as to the financial position of the Company or its subsidiaries. By engaging in this Indenture, and by the Trustee's consent to serve as trustee for the Holders of Debentures, the Trustee does not opine, whether expressly or implicitly, as to the Company's ability to fulfill its undertakings towards the Holders of Debentures. The foregoing shall not derogate from the Trustee's duties under any law and/or the Indenture, and in such context shall not derogate from the Trustee's duty (to the extent that such duty applies to the Trustee under any law) to examine the influence of changes in the Company from the date of issuance of the Debentures onwards, to the extent that they may adversely affect the Company's ability to fulfill its undertakings towards the Holders of Debentures.

7. Limitations on Distributions

The Company undertakes, that as long as the Series L Debentures are yet to be fully discharged, it shall not be entitled to effect a distribution (as such term is defined in the Companies Law), including a distribution of a dividend to its shareholders, in an amount exceeding 95% of the Company's amount of profit, as defined in Section 302 of the Companies Law (the "Maximal Distribution Rate") at the date of the resolution of the board of directors in respect of such distribution. Notwithstanding the foregoing, if the Debt to EBITDA Ratio (as such term is defined in Section 10.1.17 below) shall exceed 3.5, the Maximal Distribution Rate shall be 85% of the Company's amount of profit, as defined in Section 302 of the Companies Law, and if the Debt to EBITDA Ratio (as such term is defined in Section 10.1.17 of the Indenture) shall exceed 4, the Maximal Distribution Rate shall be 70% of the Company's amount of profit, as defined in Section 302 of the Companies Law.

The distribution of a dividend shall be conditional upon the Company's compliance with the financial covenant described in Sections 10.1.17 and 10.1.18 of this Indenture and also that the effectuation of the distribution shall not result in a breach of such financial covenant at the date of the distribution. It is clarified, that an increase in the Debt to EBITDA Ratio causing a change in the Maximal Distribution Rate, shall not prevent the Company from distributing dividends and it will be entitled to carry out the distribution up to the Maximal Distribution Rate.

It is clarified that as of the date of execution hereof, other than its aforesaid undertaking, the Company is not subject to any limitation whatsoever on effecting a distribution (as such term is defined in Section 302 of the Companies Law) other than as specified below: (1) limitations similar to the limitations set forth in this Section 7 as aforementioned, which were included in indentures by virtue of which the Company's Debentures were issued as well as in financing agreements with institutional entities; (2) limitations applying to the Company by virtue of the Companies Law in respect of the effectuation of a distribution; (3) limitations originating from the Company's license to provide cellular communication services as specified in the Company's 2016 Annual Report which was filed on Form F-20 (which was submitted to the Israel Securities Authority on March 20, 2017 (reference No. 2017-02-025950)) under Item 8 - Dividend Policy.

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It shall be clarified that the afore-described limitations are limitations applying to the Company in connection with a distribution, as of the date of execution of this Indenture. In such context it shall be noted that the scope of limitations applying to the Company as aforesaid, including the foregoing limitations, may be updated and/or may change from time to time and the Company does not undertake to individually update the Debenture Holders and/or the Trustee in specific respect of any such update or change. It shall be further clarified that the description of such limitations as aforesaid shall not create an undertaking of the Company toward the Debenture Holders in any manner whatsoever.

Not later than two Business Days after the approval of a distribution as stated by the Company's board of directors, the Company shall provide the Trustee, with a written approval, signed by the senior financial officer at the Company, confirming as follows: (1) that the Company meets all the limitations on distributions as stated above; (2) to the best of its knowledge the Company does not breach its material undertakings to the Holders of the Debentures; (3) the distribution does not harm the ability to repay the Debenture; and (4) to the best of its knowledge no cause of acceleration exists.

8. Purchase of Series L Debentures by the Company and/or by a Subsidiary of the Company and/or by a Corporation Controlled by the Company

8.1. The Company reserves, subject to any provision of law, the right to purchase at any time and at any price and terms it deems fit (on TASE and/or outside thereof) Series L Debentures that will be in circulation from time to time, without derogating from the discharge obligation by which it is bound and subject to any law, from sellers who shall be elected according to its discretion and without a duty of approaching all of the Series L Debenture Holders. The Company shall announce any such purchase by the Company in an immediate report. Series L Debentures that were purchased by the Company shall be cancelled and delisted from trade on TASE (to the extent they are registered for trade thereon) and the Company shall not be entitled to re-issue them. In case that the Series L Debentures will be purchased in the framework of their trading on TASE, the Company shall apply to the TASE Clearinghouse with an application to withdraw the Debenture Certificates thereof. The foregoing shall not derogate from the Company's right for early redemption of the Series L Debentures in the cases stated in this Indenture.

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- 8.2. A subsidiary of the Company, a corporation controlled by the Company, a controlling shareholder of the Company, its relative (as such term is defined in the Securities Law) and/or a corporation controlled by any one of them (but other than a company to which the provisions of Section 8.1 above shall apply) (an "**Affiliated Holder**"), may purchase and/or sell from time to time on TASE or outside thereof (including in case of an issuance by the Company), Series L Debentures according to their discretion and at any price they may deem fit (subject to any law). The Series L Debentures which will be so held by an Affiliated Holder, will be deemed as its assets, will not be delisted from trade on TASE and will also be transferrable as the other Series L Debentures. The Debentures that will be held by an Affiliated Holder shall not be counted for the purpose of determining the existence of a legal quorum at Holders' meeting and shall not confer the Affiliated Holder with voting rights at such meetings.
- 8.3. Nothing stated in this Section above shall derogate from the provisions of any law (including directives of the Israel Securities Authority) which apply to the Company, including in connection with the approvals required for effecting transactions with controlling shareholders (or in which the controlling shareholder has a personal interest) and/or in connection with the sale of securities to a subsidiary of the Company and public distribution thereof.

9. Early Redemption of Debentures

9.1. Early Redemption Initiated by TASE

In the event that the TASE shall decide on the delisting from trade of a Series L Debentures in circulation, because the value of the series of Debentures had decreased below the amount prescribed in the TASE Directives regarding the delisting from trade of such Debenture Series, the Company shall effect an early redemption of such Debenture Series, as follows:

- (a) Within forty five (45) days from the date of the resolution of the board of directors of TASE regarding the delisting from trade as aforesaid, the Company shall announce an early redemption date on which a Holder of Debentures may redeem such Debentures. The notice of the early redemption date will be published in an immediate report and in two (2) daily newspapers with a wide distribution, published in Israel in Hebrew.
- (b) The early redemption date shall occur no earlier than seventeen (17) days from the date of publication of the notice and no later than forty five (45) days after such date, but not in the period between the effective date for payment of interest and the date of actual payment thereof.

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- (c) On the early redemption date the Company shall redeem the Debentures which the Holders had sought to redeem. The redemption consideration shall not be less than the nominal value of the Debentures and interest accrued until the date of actual payment, as set forth in the terms of the Debentures.
- (d) Determination of an early redemption date as aforesaid shall not prejudice the redemption rights prescribed in the Debentures of any of the Debenture Holders who shall not redeem them on the early redemption date as aforesaid, but such Debentures shall be delisted from the trade on TASE and, *inter alia*, the tax implications deriving therefrom shall apply to such Debentures.
- (e) Early redemption of the Debentures as aforesaid, shall not confer upon a Holder of Debentures which shall be so redeemed, the right to payment of principal and/or interest for the period after the redemption date.

9.2. Early Redemption Initiated by the Company

The Company may, but shall not be obligated, according to its sole discretion, exercise an early redemption of Series L Debentures, in full or in part, and in such case the following provisions shall apply, all subject to the directives of the Israel Securities Authority and the TASE Directives, as in effect at the relevant date.

The frequency of early redemptions shall not exceed one redemption per quarter. In the event that an early redemption is scheduled for a quarter during which an interest payment date or a partial redemption payment date or a final redemption payment date is also scheduled, the early redemption shall be effected on the date prescribed for such payment. For such purpose, a "quarter", means any of the following periods: January-March, April-June, July-September, October-December.

The minimal scope of each early redemption shall not be less than NIS 1 million. Notwithstanding the foregoing, the Company may effect an early redemption at a scope lower than NIS 1 million, provided that the frequency of redemptions shall not exceed one redemption per year. Any amount discharged by way of early redemption by the Company, shall be discharged in respect of all of the Debenture Holders, *pro rata*, according to the nominal value of the held Debentures. It is hereby noted that in the event of partial early redemption, to the extent preformed, the Company shall pay the Holders of the Debentures on the date of partial early redemption, the interest accumulated only for the part to be redeemed in the partial redemption and not for all the unpaid balance.

Upon the adoption of a resolution by the Company's board of directors in respect of the effectuation of an early redemption as aforesaid, the Company shall issue an immediate report of the early redemption to the Debenture Holders, in which the effective date for the effectuation thereof shall be determined in the immediate report and shall take place no less than seventeen (17) days and no more than forty five (45) days prior to the early redemption date.

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The early redemption date shall not take place in the period between the effective date for payment of interest for the Debentures and the date of actual payment thereof. In the immediate report as aforesaid, the Company shall publish the amount of the principal to be discharged through early redemption as well as the interest accrued in respect of the said amount of principal until the early redemption date, according to the provisions below.

Early redemption for part of the Debenture Series shall not be effected if the amount of the last redemption was less than NIS 3.2 million. On a partial early redemption date, if any, the Company shall announce in an immediate report: (1) the rate of partial redemption in terms of the unpaid balance; (2) the rate of the partial redemption in terms of the original series; (3) the interest rate on the redeemed part in the partial redemption; (4) the interest rate to be paid in the partial redemption, calculated in respect of the unpaid balance; (5) an update of the partial redemption rates remaining, in terms of the original series; (6) the effective date for entitlement to receive the early redemption of the Debenture principal, which will take place six (6) days prior to the date scheduled for the early redemption.

The amount which will be paid to the Holders of Debentures in case of an early redemption initiated by the Company, will be the highest amount among the following: (1) the market value of the balance of the Debentures that are subject to early redemption, which will be determined according to the average closing price of the Debentures in the thirty (30) Trading Days preceding the adoption date of the board resolution regarding effectuation of the early redemption; (2) the liability value of the Debentures that are subject to early redemption, namely, principal plus interest, until the actual early redemption date; (3) the cash flow balance of the Debentures subject to early redemption (principal plus interest) which is discounted according to the Government Debentures Yield (as defined below) plus interest at a rate of 1%. The discounting of Debentures that are subject to early redemption will be calculated commencing from the early redemption date until the last discharge date determined in respect of the Debentures that are subject to early redemption.

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For such purpose: the “**Government Debentures Yield**” means the average weighted of return for redemption (gross), during a period of 7 Business Days, ending 2 Business Days prior to the date of announcement of the early redemption, of 2 series of non-index linked government debentures at a fixed interest rate and of which average lifetime is the closest to the average lifetime of the Debentures on the relevant date, namely one series with a closest higher average duration than the average duration of the Series L Debentures on the relevant date, and one series with a closest lower average duration than the average duration of the Series L Debentures on the relevant date and whose weighting will reflect the average duration of the Debentures at the relevant date.

For example, if the average duration of government debentures A is 4 years, the average duration of government debentures B is 2 years and the average duration of the balance of the loan is 3.5 years, the yield will be calculated as follows:

$$4x + 2(1-x) = 3.5$$

X = the yield weight of government debentures A

1-X = the yield weight of government debentures B

According to the calculation, the annual yield of government debentures A will be weighted at a rate of seventy-five percent (75%) from the “yield” and the annual yield of government debentures B will be weighted at a rate of 25 percent (25%) from the “yield”.

The Company will transfer to the Trustee an approval signed by the senior officer in the finance area, detailing the amount at the early redemption, together with calculations, all in the version to the satisfaction of the Trustee.

10. Acceleration

10.1. Upon the occurrence of one or more of the events specified below, the provisions of Section 10.2 below shall apply:

- 10.1.1. If a material deterioration occurred in the Company’s business compared to its condition at the issuance date of the Debentures, and there is a real concern that the Company will not be able to repay the Debentures when due.
- 10.1.2. If the Company failed to discharge any amount due therefrom to the Debenture Holders pursuant to the terms of the Debentures or pursuant to this Indenture.
- 10.1.3. If the Company materially breached terms of the Debentures or the Indenture or if a material undertaking in favor of the Holders was not fulfilled, provided that the Trustee notified the Company thereof and demanded its rectification and the Company failed to rectify such breach within fourteen (14) days of the provision of the notice or if it is found that a material representation of the Company in the Debenture documents or in the Indenture is false and/or partial.

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- 10.1.4. The Company failed to publish a financial report which it is obligated to publish under any law, within 30 days of the last date on which it is obligated to publish such report.
- 10.1.5. If a temporary liquidator had been appointed to the Company by a Court or a temporary liquidation order was issued or if the Company shall adopt a resolution for dissolution of the Company (except for dissolution for reasons of merger, as defined below, with another company and/or a restructuring of the Company), and such appointment or order or resolution had not been revoked within forty five (45) days from the date of appointment or order or resolution, as the case may be and if a permanent liquidator was appointed for the Company by the Court, or if a permanent liquidation order was issued. For such purpose – a “**merger**” means – a merger executed after receipt of a prior approval of the Debenture Holders by simple majority, unless the Company or the surviving entity, as applicable, has declared toward the Debenture Holders, including through the Trustee, at least ten (10) Business Days prior to the merger date, that there is no reasonable concern that due to such merger the Company or the surviving company, as applicable, will be unable to fulfill its undertakings toward the Debenture Holders or in the event of a merger between companies included in the Cellcom Group, as such term is defined in Section 10.1.10 below, including the Company, whereas in such event no such declaration or prior approval of the Debenture Holders be required. It is hereby clarified that no grace period shall be afforded in respect of motions and/or orders and/or resolutions submitted or issued by the Company or at its consent.
- 10.1.6. If an attachment shall be imposed, a pledge be exercised or execution actions be carried out, all on a Majority of the Company’s Assets, and such attachment or exercise had not been removed or the action have not been canceled within forty five (45) days, after the attachment had been imposed or the pledge was exercised or the action was carried out. It is hereby clarified that no grace period shall be afforded in respect of motions and/or orders submitted or issued by the Company or at its consent.

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- 10.1.7. If a motion or an appointment of a temporary receiver for a Majority of the Company's Assets, which had not been dismissed or removed within forty five (45) days from the date of their filing or issuance, as the case may be, or if an order for the appointment of a permanent receiver of a Majority of the Company's Assets was issued, which had not been not revoked within seven (7) days of the date of the appointment thereof. It is hereby clarified that no grace period shall be afforded in respect of motions and/or orders submitted or issued by the Company or at its consent.
- 10.1.8. If the Company shall cease or shall announce its intention to cease the payment of debts thereof.
- 10.1.9. If the Company shall cease to continue its business and/or to conduct its business as it shall be from time to time and/or shall notify the Trustee of its intention to cease from continuing to engage in the business thereof as it shall be from time to time and/or to conduct it and/or shall intend to cease from continuing in its business, as it shall be from time to time.
- 10.1.10. If a third party that is a lender of the Company (except for a supplier of the Company) has accelerated the Company's debts toward itself and the demand for acceleration has not been removed or delayed or settled within 35 days of the date of acceleration thereof. The foregoing in this sub-section shall not apply if the aggregate amount of debt in respect of which an acceleration right was created and triggered, is equal to NIS 150 million or less, other than Debenture Series issued by the Company and accelerated by the Trustee or by a Holders' meeting in accordance with a resolution as specified in Section 10.2 below, in respect of which such limitation shall not apply.

For such matter it shall be clarified that non-recourse loans shall not be deemed as debt of the Company as set forth in this Section.

- 10.1.11. If the Cellcom Group ceased to engage in the field of cellular communication and/or ceased to hold a license for the provision of cellular communication services for a period exceeding 60 (sixty) days. For such purpose – the "**Cellcom Group**" means – the Company and the companies held thereby.
- 10.1.12. If trade of the Debentures was suspended by TASE pursuant to the provisions of Part Four of the TASE Rules, except for suspension in the cause of uncertainty as specified in the provisions of Part Four of the TASE Rules and forty five (45) days had passed since the suspension date, during which the cause for the suspension of trade was not rectified or removed, or if the Debentures were delisted from trade on TASE.

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- 10.1.13. If the Company shall carry out a distribution (as defined in the Companies Law) which does not comply with the conditions of Section 7 above.
- 10.1.14. If for a period of 60 consecutive days, the Debentures are not rated by any Rating Agency, provided that at least one Rating Agency is active in Israel at such time, and that the rating was terminated due to reasons and/or circumstances that were controlled by the Company.
- 10.1.15. If the Company shall file a motion for a stay of proceedings or if such order is issued at the Company's request or if the Company shall file a motion for a compromise or arrangement with its creditors pursuant to Section 350 of the Companies Law, or if the Company shall otherwise propose such compromise or settlement to its creditors, on the background of the Company's inability to fulfill its undertakings when due (other than for the purpose of a merger (as such term is defined in Section 10.1.5 above) with another company and/or a restructuring of the Company or a split that are not prohibited under the terms of this Indenture, and other than arrangements between the Company and its shareholders which are not prohibited under the terms of this Indenture and which do not affect the Company's ability to discharge the Debentures or – if a motion pursuant to Section 350 of the Companies Law be filed against the Company (without its consent) which had not been dismissed or removed within 45 days from the filing date thereof.
- 10.1.16. If a Majority of the Company's Assets was Sold to Another, as such terms are defined below, and the prior written consent of the Trustee for such sale was not obtained, which shall be provided after receipt of the consent of the Debenture Holders; but except for a sale the consideration therefrom was used or is expected to be used by the Company (according to its notice) for the purchase of an asset or other assets having characteristics befitting the Company's fields of activity, as being at the date of such sale.

For such purpose, a "**Sale to Another**" means a sale to any third party whatsoever (including the Company's controlling shareholders and/or corporations controlled thereby) but except for corporations included in the Cellcom Group (as such term is defined in Section 10.1.11 above) and provided that in the event of a sale to corporations included in the Cellcom Group (as such term is defined in Section 10.1.11 above) the Company has declared toward the Debenture Holders, including through the Trustee, at least ten (10) Business Days prior to the date of the sale, that there is no reasonable concern that due to such sale the Company shall be unable to fulfill its undertakings toward the Debenture Holders.

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- 10.1.17. If the net debt to EBITDA ratio, excluding one-time effects (the “**Debt to EBITDA Ratio**”) shall exceed 5.

For such purpose: “**net debt**” means credit from banks and others and loans from banks and others and liabilities for the Debentures excluding cash and cash equivalents and current investments in tradable securities; and “**EBITDA**” – shall mean, in respect of the 12 month period preceding the Company’s latest consolidated financial statements - as income before depreciation and amortization, other net expenses/revenues, net financing expenses/revenues and taxes.

Within three (3) Business Days of the date of publication of the Company’s financial statements, the Company shall provide the Trustee with a certification signed by the senior financial officer of the Company, in which it shall indicate the net Debt to EBITDA Ratio, based on such financial statements. The Trustee shall rely on the Company’s certification and shall not be required to further examine such matter.

- 10.1.18. If the Company shall not comply with the Debt to EBITDA Ratio (as such term is defined in Section 10.1.17 above) which shall not exceed 4.5 during four consecutive quarters.

- 10.1.19. If a merger was effected without receipt of the prior approval of the Debenture Holders, unless the Company or the surviving entity, as applicable, has declared toward the Debenture Holders, including through the Trustee, at least ten (10) Business Days prior to the merger date, that there is no reasonable concern that due to such merger the Company or the surviving company, as applicable, will be unable to fulfill its undertakings toward the Debenture Holders.

For the purpose of this Section 10.1.19:

“**merger**” within its meaning in the Companies law, other than a merger between companies included in the Cellcom Group, as such term is defined in Section 10.1.11 above, including the Company, whereas in such event no declaration of the Company or of the surviving company as aforesaid or a prior approval of the Debenture Holders as aforesaid be required.

- 10.1.20. If the Company breached its Negative Pledge Undertaking as set forth in Section 6.1 above and has not cancelled the pledges registered under such breach, within 30 days of the date of receipt of a warning thereof by the Trustee.

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- 10.1.21. There is a real concern that the Company shall not fulfill its material undertakings toward the Debenture Holders.
- 10.1.22. A “going concern” note was recorded in the Company’s financial statements for a period of two consecutive quarters.
- 10.1.23. If the Company issued additional Debentures through a series expansion while breaching its undertaking regarding series expansions set forth in Section 5.1 above.
- 10.1.24. If the rating of the Debenture will be lower than the (BBB-) rating in accordance with the rating of the Standard & Poor’s Maalot or below the parallel rating of another Rating Agency, for a period of 90 consecutive days.

In this Section 10.1, a “**Majority of the Company’s Assets**” means asset and/or assets the overall amount of which constitutes more than 50% of the overall amount of all of the assets as recorded in the consolidated report on the financial position according to the consolidated financial reports last issued by the Company prior to a relevant event as aforesaid.

- 10.2. Without derogating from any right of the Trustee and/or of the Holders by virtue of the provisions of the Securities Law in respect of the acceleration of the Debentures, upon the occurrence of the events specified in Section 10.1 above, the following provisions shall apply:

- [a] The Trustee shall be entitled to convene a meeting of the Debenture Holders, on the agenda of which shall be a resolution to accelerate the balance of the Debentures in circulation, and it shall be obligated to do so at the demand of Holders of the Debentures.

The date of convening of such meeting shall be upon the expiration of twenty one (21) days of the date of its notice, however, the Trustee will be entitled, at its discretion, to shorten such period to a reasonable period in the circumstances of the matter, if the Trustee shall be of the opinion that holding of the meeting at such date shall prejudice the possibility of accelerating the Debenture. The Trustee shall not do so unless it first provided a prior notice to the Company in which it specified the reasons for shortening such notice period;

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- [b] The Holders' resolution to accelerate the Debentures shall be adopted at the Holders' meeting, in which Holders of at least fifty percent (50%) of the balance of the nominal value of the Debentures were present, by a majority of the Holders of the balance of the nominal value of the Debentures represented at the vote or by such majority at an adjourned Holders' meeting in which Holders of at least twenty percent (20%) of such balance were present;
 - [c] In the event that until the date of adoption of the resolution at a Holders' meeting for the acceleration of the balance of the Debentures as aforesaid, any of the events specified in Section 10.1 above have not been cancelled or removed, and a Holders' resolution was adopted as aforesaid, the Trustee will be obligated to accelerate all of the unpaid balance of the Debentures of the Relevant Series;
 - [d] The Trustee or the Holders shall not accelerate the Debentures unless they first delivered a notice to the Company of their intention to do so; however the Trustee or the Holders are not obligated to provide the Company with such notice, if there is a reasonable concern that the provision of such notice shall prejudice the possibility to accelerate the indebtedness;
 - [e] It is clarified, that upon the occurrence of any of the events and/or causes specified in Section 10.1 above and which include a grace period or if another cause for acceleration of the Debentures was established by law, which includes a reasonable period during which the Company is permitted to take an action or adopt a resolution which may result in the removal of such cause, the right of the Trustee and/or of the Holders to accelerate the Debentures as aforesaid in this Section 10, shall arise only if the grace period prescribed in such Sections or such law (as applicable) had lapsed, and the cause was not removed in the duration thereof. Notwithstanding, the Trustee may shorten the grace period as aforesaid if it believed that it may materially prejudice the rights of the Holders.
 - [f] Notwithstanding the provisions of this Section 10, in the event that the Company requests the Trustee, in writing, to appoint an urgent representative body, the parties shall act in accordance with the provisions of Section 13 of the Terms and Conditions Overleaf to the First Schedule.
- 10.3. It is hereby clarified that the Trustee's duties according to this Section 10, are subject to the actual knowledge thereof of the occurrence of the facts, cases, circumstances and events specified therein, whether by virtue of public announcements released by the Company, notifications sent to the Trustee by the Company pursuant to the terms of this Indenture, or by virtue of information which otherwise has reached it in the context of its service as Trustee of the Debenture. This is not to derogate from the duties of the Trustee according to any law.

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10.4. It is clarified, that nothing in the right of acceleration as stated above and/or acceleration of Debentures will derogate or harm any other relief available to Holders of Debentures pursuant to the terms of the Debenture and the provisions of this Indenture or under law.

11. Claims and Proceedings by the Trustee

- 11.1. In addition to any other provision in this Indenture, the Trustee shall be entitled, according to its discretion, and shall be obliged to do so, if so required by a Special Resolution adopted at a meeting of the Holders of Debentures, but subject to the provision of a prior notice of twenty-one (21) days to Company, to initiate any such proceedings, including legal proceedings and motions for instructions, as the Trustee shall deem fit, and subject to the provisions of any law, for the enforcement of the Company's undertakings pursuant to this Indenture and for the exercise of the rights of the Debentures Holders under this Indenture. Notwithstanding the aforesaid at the beginning of this Section 11.1, regarding the obligation to provide prior notice to the Company, the Trustee will be entitled, at its discretion, to shorten the abovementioned period for a reasonable period of time under the circumstances, if in his opinion, there is a reasonable concern that a delay in legal proceedings during the above mentioned period may materially harm the rights of the Holders. The Trustee shall not do so unless it provides a prior notice to the Company detailing the reasons for shortening the prior notice, as above mentioned. Notwithstanding the provisions of this Section 11, it is clarified that the right of acceleration shall only be realized in accordance with the provisions of Section 10 above and the provisions of this Section 11 shall not apply.
- 11.2. The Trustee may, prior to initiating proceedings as aforesaid, convene a meeting of the Debenture Holders pursuant to the provisions hereof, in order for such Holders to decide by way of a Special Resolution what proceedings to initiate in order to exercise their rights pursuant to this Indenture, provided that the meeting shall be convened at the first possible date pursuant to this Indenture, and the delay of the proceedings shall not risk the rights of the said Holders. Also, the Trustee will be entitled to reconvene meetings of Holders as aforesaid, for the purpose of receiving instructions in all matters pertaining to the conduct of such proceedings according to the aforesaid.
- 11.3. Subject to the provisions of the Indenture, the Trustee is entitled, but not obliged, to convene, at any time, a general meeting of the Debenture Holders in order to discuss and/or receive the instructions thereof in respect of any matter concerning the Indenture.

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- 11.4. The Trustee may, according to its sole discretion, delay the performance of any action thereby according to the Indenture, for the purpose of referring to a meeting of the Debenture Holders and/or the Court until it receives instructions from the meeting of the Debenture Holders and/or from the Court as to how to act, provided that the convening of the meeting or application to the Court shall be carried out at the first possible date pursuant to the terms of this Indenture. The convening of a meeting of Debenture Holders by the Trustee in order to receive instructions as to how to act, shall not be deemed a breach of its duty under Section 35H of the Securities Law, provided that the convening of the meeting in itself shall not materially prejudice the rights of the Holders.
- 11.5. For avoidance of doubt it is hereby clarified that none of the provisions specified above may prejudice and/or derogate from the right of the Trustee, hereby conferred upon the Trustee, to apply, according to its sole discretion, to legal proceedings, even before the Debentures shall be accelerated, and thereafter, for the purpose of issuance of any order in respect of all matters regarding the trust.
- 11.6. It is clarified, that the right to accelerate the Debentures shall arise only in accordance with and in the manner prescribed in Section 10 of the Indenture, and the provisions of this Section 11 shall not supplement such causes and rights of acceleration of the Debenture.

12. Trust for the Proceeds

All of the proceeds held by the Trustee in connection with the Debentures, other than its fees, shall be held thereby in trust for the Holders of Debentures and shall serve in the hands thereof for the purposes and according to the order of priorities as follows:

First, for clearing expenses, payments, levies and liabilities expended by the Trustee, charged thereon, or incurred through or as a result of the actions of performing the trust or in another manner in connection with the terms of the Indenture, including the fee thereof, all in respect of the Debentures, and will use the balance, **first** - to pay sums under the "Indemnification Undertaking" as defined in Section 25 below; **second** - to pay the Debentures Holders the arrears in interest (including the arrears interest if any) due thereto according to the terms of the Debentures *pari passu* and *pro rata* to the amount of the arrears in interest, owing to each of them with no preference or right of priority in respect of any of them; **third** - for the payment to the Debenture Holders of arrears interest for arrears of the principal due thereto according to the Debentures terms and conditions, *pari passu* and *pro rata* to the amount of principal in arrear due to each one of them, with no preference or preemptive right with respect to any of them; **forth** - in order to pay the Debenture Holders the interest amounts yet to mature and to which they are entitled under the Debentures held thereby, *pari passu* and *pro rata* to the amounts due thereto, with no preference regarding priority in time of issuance of the Debentures by the Company or otherwise; **fifth** - In order to pay the Debenture Holders the amounts of the principal due to them pursuant to the Debentures, *pari passu* and *pro rata* to the amounts due to them, without any preference as to the time priority of the issuance of the Debentures by the Company or otherwise; **sixth** - in order to pay the Debenture Holders the amounts of the principal yet to mature and to which they are entitled under the Debentures held thereby, *pari passu* and *pro rata* to the amounts due thereto, with no preference regarding priority in time of issuance of the Debentures by the Company or otherwise. The excess, if any, shall be paid by the Trustee to the Company or its successors. Withholding tax shall be deducted from the payments to the Debenture Holders, to the extent that such withholding is mandated under any law.

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Payment of the amounts by the Trustee to the Debenture Holders shall be effected according to the provisions of law.

13. Authority to Withhold Distribution of Funds

Notwithstanding the provisions of Section 12 above, should the monetary amount received as a result of the initiation of the proceedings specified in Section 11 above and which will be available for distribution at any time to the Debenture Holders as aforesaid, will be less than NIS 1 million (the "**Minimal Amount**"), the Trustee shall not be obligated to distribute such and will be entitled to invest the said amount, in whole or in part, in investments permitted under Section 18 below.

Once the aforesaid investments including the profits thereof, together with other funds which shall reach the Trustee for the payment thereof to the Debenture Holders, if any, shall amount to the Minimal Amount, or at the next date prescribed for effecting payment on account of the principal and/or interest under the Debentures (the earlier thereof), even if the amount accrued by the Trustee is less than the Minimal Amount, the Trustee shall be obligated to distribute said amount accrued thereby as aforesaid to the Debenture Holders. Notwithstanding the provisions of this Section above, the Debenture Holders may, pursuant to an ordinary resolution adopted thereby, instruct the Trustee to pay them the funds received by the Trustee and are available for distribution as stated in Section 12 above, even if the amount thereof is less than the Minimal Amount and even if the payment date of principal and/or interest under the terms of the Debentures has yet to arrive.

Nothing stated in this Section above shall derogate from the provisions of Section 12 above regarding the order to priorities of distribution of funds received by the Trustee and it shall be clarified, that payments which precede payment to the Holders in the order of priorities, as set forth in Section 12 above, shall be distributed and/or paid, as the case may be, immediately after receipt thereof, even if the amount accrued by the Trustee is lower than the Minimal Amount.

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14. Notice of Distribution

- 14.1. The Trustee shall notify the Holders of the date and place on and in which any payment of the payments stated in Sections 12 and 13 above shall be made, by an advance notice of fourteen (14) days which will be delivered in the manner prescribed in Section 26 below.
- 14.2. After the date specified in the notice, the Holders will be entitled to interest according to the rate set forth in the Debenture, only for the balance of the principal (if any) after deduction of the amount paid, or proposed to be paid to them, as aforesaid.

15. Refrainment from Payment for a Reason which is Beyond the Company's Control

- 15.1. Any sum payable to a Debenture Holder and which was not actually paid on the due date for the payment thereof for a reason beyond the Company's control, even though the Company was ready and able to pay the sum in full (the "**Impediment**"), shall cease to bear interest from the date it has been transferred to the Trustee and the said Holder shall be entitled only to those sums to which he was entitled on the maturity date of that payment on account of the principal and/or interest (as applicable).
- 15.2. If such sum as aforesaid has not been paid within fourteen (14) days of the due date for the payment thereof, then on the first Business Day after the due date for payment of such sum, the Company shall remit such sum to the Trustee, who shall hold the sum in trust for the Debenture Holder, and the transfer of the sum to the Trustee as aforesaid shall be deemed payment of such sum to such Holder. If the aforesaid sum is the last payment – the deposit of said sum in trust in the hands of the Trustee shall be deemed a redemption of the aforesaid Debentures. The Trustee shall deposit any sum held thereby in trust for Holders in the bank in investments permitted under the Indenture. After receiving from the Holder a notice of the removal of the Impediment, the Trustee shall remit to the Holder the funds accrued on the deposit and which resulted from the liquidation of the investment of the same, net of all of the expenses and management fees of the escrow account and net of any tax under law and his fees. The payment shall be made against the presentation of such evidence as shall be acceptable to the Trustee concerning the Holder's right to receive the same.

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- 15.3. Upon the expiration of one year after the final date for discharge of the Series L Debentures, the Trustee shall remit the sums accrued in its hands to the Company, net of expenses incurred pursuant to the terms of this Indenture, and his fees and the Company shall hold the same in trust and invest the same as provided in Section 15.2 above, for the Holder until the expiration of three (3) years after the date of the final discharge of the Debentures, and it shall make no use of the same during such period. With respect to the sums that shall be remitted to the Company by the Trustee as aforesaid, they shall be subject to the provisions of this Section 15, *mutatis mutandis*. After remitting the sums to the Company, the Trustee shall not owe to the Holders of Debentures any payment in respect of the sums held thereby as aforesaid.
- 15.4. The Company shall confirm to the Trustee in writing that such sums were remitted thereto and the receipt of the same in trust for the Debenture Holders as aforesaid, and it shall undertake to indemnify the Trustee for any damage of any kind that the Trustee shall suffer for the remittance of the funds as aforesaid, provided that it acted in a reasonable manner and not in bad faith and/or malice and/or negligence. Funds as aforesaid which shall not be demanded from the Company by the Debenture Holder as aforesaid upon the expiration of seven (7) years after the final discharge date of the Debentures, shall become the Company's property and it shall be entitled to use the remaining funds for any purpose whatsoever. It is clarified, that the foregoing shall not derogate from the rights of the Debenture Holders under the law.
16. **Receipt from the Debenture Holders**
- 16.1. A receipt from a Holder or evidence from the transferring bank regarding the execution of the transfer or the execution of the transfer via the TASE Clearinghouse for the amounts of principal and/or the interest (as applicable) paid to such Holder by the Trustee and/or the Company for the Debentures, shall release the Trustee and/or the Company (as the case may be) entirely in respect of anything related to the payment of the amounts stated therein.
- 16.2. A receipt from the Trustee concerning the deposit of the amounts of principal and interest (as applicable therewith in favor of the Debenture Holder shall be deemed a receipt from the Debenture Holder.
- 16.3. The funds distributed as provided in Section 15 above shall be deemed as made on account of the discharge of the Debentures.
- 16.4. The Trustee shall be entitled to demand that a Debenture Holder present to it, upon payment on account of the principal and interest (as applicable), the Debenture Certificate for which the payments are made, or in the alternative, any other formal document signed by the Transfer Agent and/or a TASE member, attesting to the holding of the Debentures by him.

17. **Application of the Securities Law**

In any matter not mentioned herein as well as in any case of conflict between the mandatory provisions of the Securities Law regarding the Debentures and this Indenture, the parties shall act in accordance with the provisions of the Securities Law, with no necessity to amend the provisions of this Indenture.

18. **Investment of Funds**

All of the funds which the Trustee may invest according to this Indenture shall be invested thereby solely in bank deposits with one of the five large banks in Israel whose rating is not less than AA rating or in governmental bonds, all subject to the terms of the Indenture and to the provisions of any law. If the Trustee invested funds as aforesaid, then in respect of such amounts, the Trustee shall owe the entitled parties only the consideration received from the realization of the investments, net of its fee and expenses, the commissions and expenses related to the investment as aforesaid and the management of the trust accounts, and net of the mandatory payments which apply to the trust accounts, and the Trustee shall act with respect to the balance of the funds in accordance with the provisions of the Indenture, as applicable.

19. **The Company's Undertakings vis-à-vis the Trustee**

The Company assumes, vis-à-vis the Trustee, the following undertakings, for as long as the Debentures have not yet been fully paid-up:

- 19.1. To continue managing the Company's businesses in an orderly and proper manner.
- 19.2. To keep and maintain its assets (as being from time to time) in good and functioning condition.
- 19.3. To provide and instruct its accountants to provide the Trustee and accountants, attorneys or other consultants on its behalf any information that shall be reasonably required for protecting the Holders with respect of all of the data related to the Company's business or assets (subject to the provisions of any law and to their execution of an undertaking of confidentiality in favor of the Company as specified below). Without derogating from the generality of the foregoing, the Company shall deliver to the Trustee documents held solely by the Company within 5 Business Days of the date of the Trustee's request. Such documents shall be delivered to consultants on behalf of the Trustee only after the Company shall have received a confidentiality undertaking signed by such consultants.
- 19.4. To keep regular account books in accordance with acceptable accounting principles and to keep the books, including the documents serving as evidence thereof, at its offices, as required under law.

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- 19.5. To allow the Trustee to attend the general meetings of the Company's shareholders (without a right to participate or to vote).
- 19.6. To deliver to the Trustee the reports and notices as specified in Section 31 below.
- 19.7. To provide to the Trustee, at its request, an affidavit and/or statements and/or details and/or information, as required by the Trustee pursuant to its sole discretion, for the purpose of implementing and exercising the authorities, powers and authorizations of the Trustee and/or its representatives under the Indenture, provided that they are reasonable. Without derogating from the generality of the foregoing, the Company shall deliver to the Trustee documents held solely by the Company within 5 Business Days of the date of the Trustee's request. Such documents shall be delivered to consultants on behalf of the Trustee only after the Company shall receive a confidentiality undertaking signed by such consultants.
- 19.8. To promptly report by way of an immediate report, in the Trustee's name, any report in such language as shall be delivered thereto in writing by the Trustee with respect to the Debentures and/or the trust thereof according to this Indenture, to the extent so requested by the Trustee.
- 19.9. To provide the Trustee a copy of any document and all information that the Company provides to the Holders of Debentures, if provided.
- 19.10. To inform the Trustee in writing of all changes in its name or address.

The Trustee hereby undertakes to maintain under confidentiality, and to obligate any person acting on its behalf to maintain under confidentiality, any information that it shall receive from the Company as aforesaid and that it shall receive under any law as in effect from time to time, and not to use such information unless its disclosure or use is required for the purpose of fulfilling the Trustee's duty under the Securities Law, this Indenture or a court order, provided that such disclosure shall be limited to the minimal degree and scope required in order to comply with the requirements of the law and that the Trustee shall coordinate with the Company in advance, to the extent possible and permissible, the content and time of disclosure, in a manner affording the Company reasonable time to apply to legal proceedings to the extent necessary for the purpose of preventing such disclosure of information.

20. **Additional Undertakings**

After and insofar as Debentures shall be accelerated, as set forth in Section 10 above, the Company shall perform from time to time and at any time that it shall be required to do so by the Trustee, all of the reasonable actions in order to allow the exercise of all of the authorities vested in the Trustee, and in particular, the Company shall take the following actions:

- 20.1. It shall transfer and remit to the Trustee the consideration for the Debentures due, according to the terms thereof. In the event that the Company has remitted the full amount of the principal and/or interest pursuant to this Section, the Company shall be deemed to have fully fulfilled its undertakings toward the Debenture Holders in relation to the relevant payment of the principal and/or interest.

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20.2. It shall deliver statements and/or shall execute all of the documents and/or shall take and/or cause the taking of all of the actions necessary or required under the law for validating the exercise of the authorities, powers and authorizations of the Trustee and/or its representatives.

20.3. It shall provide all of the notices, orders and instructions that the Trustee shall deem useful and shall demand.

21. **Other Agreements**

Subject to the provisions of the law, neither the fulfillment of the Trustee's duties hereunder, nor its mere status as a trustee, shall prevent the Trustee from engaging with the Company in various contracts or from performing transactions therewith in its ordinary course of business, provided that such engagement with the Company shall not prejudice the rights of the Holders of the Debentures, and provided further that such engagement shall not place the Trustee in a conflict of interests toward the Holders of the Debentures.

22. **Trustee's Fees**

The Company shall pay to the Trustee a fee for its services as a trustee for the Debentures under the Indenture, as follows:

22.1. For the first year of trust, immediately after the issuance of the Debentures, the Trustee shall be paid an annual fee of NIS 28,000, and for each additional year during which the Trustee shall act as a trustee for the Debentures (and for as long as the Debentures which are yet to be paid-up, are in circulation), the sum of NIS 24,000 (all linked to the Consumer Price Index known on the execution date of this Indenture but in any event shall be no less than the sum prescribed above). Such fee shall be paid at the beginning of each year of trust. In the event that collateral shall be provided in favor of the Holders of the Debentures in accordance with the Indenture, the parties shall negotiate an update of the fee. No payment shall be charged for the expansion of a Debenture Series.

22.2. For the Trustee's presence at meetings of the Company's shareholders, the Trustee shall be paid an additional fee of NIS 1,000 per meeting (linked to the Consumer Price Index as aforesaid).

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- 22.3. If the Trustee's term expired with respect to the Series L Debentures as provided in the Indenture and/or if it ended in accordance with the terms of the Debentures, the Trustee shall not be entitled to payment of a fee for the period commencing on the date on which a substitute trustee has commenced its service and any overpayment made to the Trustee for such period shall be reimbursed thereby to the Company.
- 22.4. For special actions and special works performed by the Trustee, beyond the regular activity of the Trustee, such as the performance of an action resulting from a breach of the Indenture by the Company and/or due to the need to take actions due to the non-fulfillment by the Company of its undertakings toward the Debenture Holders and/or for an acceleration of the Debentures, and including the participation in various meetings (such as meetings with the Securities Authority), the Company shall pay the Trustee a fee according to the hours actually invested thereby, in the sum of NIS 550.
- 22.5. VAT as prescribed by law shall be added to all of the aforesaid sums payable to the Trustee and they shall be linked to the index published on December 15, 2017, but shall not be less than the nominal amount prescribed above.
- 22.6. For actions performed by the Trustee prior to the execution of this Indenture, the Company shall pay the Trustee a one-time amount in the sum of 7,500 NIS plus VAT.

Without derogating from the foregoing, in the event of the appointment of a Trustee in substitution of a Trustee whose service had ended pursuant to the provisions of this Indenture and/or the provisions of the law, the Debenture Holders shall bear the difference by which the fee of the appointed Trustee surpassed the fee paid under this Section 22 above to the Trustee whose service had ended as aforesaid, if any, and to the extent that such difference is unreasonable.

23. **Special Authorities**

- 23.1. The Trustee shall be entitled to deposit all of the notes and documents that attest to, represent and/or determine its right with respect to any asset found at that time in its hands, in a safe and/or any other place of its choice, with any banker and/or banking company and/or attorney.
- 23.2. In the framework of performing the matters of the trust hereunder and subject to the provisions of any law and the Indenture, the Trustee may commission the opinion and/or advice of any expert, including any lawyer, accountant, assessor, appraiser, surveyor, broker or other expert, and act in accordance with the conclusions thereof, whether such opinion and/or advice were prepared at the request of the Trustee and/or of the Company, and the Trustee shall not be liable for any loss or damage suffered as a result of any act and/or omission committed thereby in reliance on such advice or opinion as aforesaid, unless it was determined in a final and conclusive judgment that the Trustee acted with malice or bad faith or negligence (in respect of which the Trustee is not exempted). The Trustee shall make available to the Company, at its request, a copy of any opinion or advice as aforesaid, provided that it shall not prejudice the rights of the Holders.

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- 23.3. Subject to the provisions below, the Company shall bear the entire cost of engaging such consultants, provided that, to the extent that the terms below shall not prejudice the rights of the Debenture Holders, the Trustee shall deliver to the Company, reasonable time in advance, a notice of its intention to receive an expert opinion or advice as aforesaid, together with a specification of the representative's fees and the purpose of appointment thereof, and that such opinion or advice shall be not provided by a person found in a conflict of interests and/or competition with the Company's business (including material held companies of the Company). At the Company's request, and to the extent that it will not prejudice the rights of the Debenture Holders, the Trustee shall examine and present to the Company, prior to such engagement, a reasonable number of alternatives for such engagement. The Company shall choose one of such offers, and shall be entitled to negotiate the offer with such experts. The aggregate sums to be borne by the Company for the foregoing shall not exceed a reasonable and acceptable amount in the circumstances of the matter.
- 23.4. Any advice and/or opinion as aforesaid may be provided, sent or received by letter, telegram, fax and/or any other electronic medium for the transfer of information in writing.
- 23.5. Subject to the provisions hereof, the Trustee may, but is not obligated to, convene at any time, if deemed necessary thereby, a general meeting of Holders of Debentures, in order to discuss and/or receive its instructions in any matter concerning this Indenture and it may reconvene the same.
- 23.6. The Trustee shall not be required to notify any party of the execution of this Indenture and it may not intervene in any manner whatsoever in the management of the Company's business or affairs, other than in accordance with the authorities granted thereto herein. Nothing in this Section shall limit the Trustee in any action that it is obligated to perform in accordance with the provisions of this Indenture.
- 23.7. The Trustee shall faithfully exercise the powers, authorizations and authorities granted thereto hereunder at its absolute discretion, in a reasonable manner and in accordance with the provisions of any law.

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24. **Trustee's Authority to Engage Proxies**

The Trustee may, in the framework of managing the business of the trust under this Indenture, appoint a proxy, or proxies, to act in its place, whether an attorney or another person, in order to take or participate in taking special actions that are required in connection with the trust, and without derogating from the generality of the aforesaid, institute legal proceedings, provided that the Trustee gave notice to the Company of the appointment of a proxy as aforesaid and such representative shall have assumed a confidentiality undertaking toward the Company as set forth in Section 19 hereof. The Trustee may also pay, at the Company's expense, the reasonable fees of any such representative for proceedings for the purpose of or after the acceleration of the Debentures, and the Company shall reimburse the Trustee, immediately at its first demand, for such expenses, provided that the Trustee acted in accordance with Section 23.3 above, *mutatis mutandis*, in connection with the appointment of such representatives. The appointment of a representative as aforesaid shall not release the Trustee from any liability that would have applied thereto if not for said appointment and/or derogate from the Trustee's liability for its actions and the actions of its representatives. The Company may object to the appointment of a certain proxy as aforesaid on any reasonable ground, including if the proxy is a competitor or is found in a conflict of interests, whether directly or indirectly, with the Company's businesses.

25. **Indemnification of the Trustee**

25.1. The Trustee and all of its officers, employees, proxies or experts appointed and/or shall be appointed thereby pursuant to the provisions hereof (the "**Indemnitees**") shall be entitled to receive indemnification from the Debenture Holders and/or the Company, as the case may be, for reasonable expenses that they incurred and/or shall incur and for a monetary charge under a final and conclusive judgment (in respect of which a stay of execution order was not issued) or pursuant to a settlement that has been concluded (and to the extent that the settlement pertains to the Company and/or to payments that it is to bear, subject to the Company's consent), all - in connection with actions concerning the Debentures which they took or are to take by virtue of their duties under the terms hereof and/or under law and/or under any instruction of a competent authority and/or under any statute and/or at the demand of the Debenture Holders and/or at the demand of the Company, as specified in this Section below. Nothing in this Section 25 shall derogate from the provisions of Sections 23.2 and 24 regarding the Trustee's mode of action in connection with the engagement of consultants and representatives thereby.

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- 25.2. Notwithstanding the aforesaid:
- [a] The Indemnitees shall not be entitled to demand indemnification in advance in respect of an urgent matter (without derogating from their right to retroactive indemnification for such matter, if and insofar as such right is afforded thereto).
 - [b] The Indemnitees shall be entitled to indemnification for liability in torts in case that they shall be charged with such liability under a final and conclusive judgment or a concluded settlement vis-à-vis a third party, who is not one of the Debenture Holders, provided that they did not act in negligence and/or bad faith and/or malice.
- 25.3. The aforesaid right of indemnification is subject to the following conditions:
- [a] The expenses are reasonable.
 - [b] The Indemnitees acted in good faith and such action was taken in the framework of the performance of their duties, according to the provisions of the law and this Indenture.
 - [c] If determined in a final and conclusive judicial decision that the Indemnitees acted in negligence and/or bad faith and/or malice and/or acted in negligence that is not exempted under any law or this Indenture, the Indemnitees shall repay the Indemnification Undertaking amounts paid thereto (together with linkage differentials).
- 25.4. Without derogating from the rights of compensation and indemnification under the law and/or the commitments of the Company and the Debenture Holders hereunder, the Indemnitees shall be entitled to receive out of the funds received by the Trustee from the proceedings instituted thereby and/or otherwise under the Indenture, indemnification with respect to the undertakings assumed by them, with respect to expenses incurred by them in the course of performing the trust or in connection with such actions, which at the Trustee's opinion were required for the performance of the same and/or with respect to the exercise of authorities and authorizations granted by virtue of the Indenture as well as with respect to all kinds of legal proceedings, opinions and consultation with attorneys and other experts, negotiations, exchange, expenses, claims and demands with respect to any matter and/or issue which were done and/or not done in any matter, and all with respect to the Debentures, and the Trustee may withhold the funds held thereby and pay therefrom the sums required for the payment of the indemnification as aforesaid. All of said sums shall have preference over the rights of the Debenture Holders, subject to the provisions of any law, provided that the Trustee acted in good faith and without negligence and in accordance with the duties imposed thereon under any law and hereunder.

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- 25.5. Whenever the Trustee shall be required under the terms of the Indenture and/or under the law and/or an instruction by a competent authority and/or any statute and/or at the demand of the Debenture Holders and/or at the demand of the Company, to take any action with respect to the Debentures, including, without limitation, instituting proceedings or filing claims at the request of the Debenture Holders, as provided in the Indenture, the Trustee may refrain from taking any such action until it receives to its satisfaction a letter of indemnification from the Company and/or from all or any of the Debenture Holders with respect to expenses and/or damage that may be suffered thereby and/or by the Indemnitees and/or by the Company (as the case may be) due to taking such action as aforesaid, for any liability for damage and/or expenses that may be suffered by any of them, due to taking such action. It is clarified that the aforesaid does not exempt the Trustee from taking an urgent action which is required in order to prevent a material breach of the rights of the Debenture Holders.
- 25.6. Notwithstanding the aforesaid in this Section 25, whenever the Trustee deems fit, for the purpose of protecting and/or exercising the rights of the Debenture Holders and/or whenever it shall be obligated, according to the terms of the Indenture and/or under law and/or an instruction of a competent authority and/or any statute and/or at the demand of the Company and/or the Debenture Holders, to institute legal proceedings, the Company shall deposit in the Trustee's hands a sum that shall be reasonably determined by the Trustee as the expected sum of expenses of the Trustee and/or the Indemnitees in connection with such proceedings (the "**Financing Cushion**"). In case that the Company does not deposit the Financing Cushion on the date that it was requested to do so by the Trustee, and in the Trustee's opinion there shall be doubt as to the Company's ability to cover the expenses involved in instituting proceedings by the Trustee and/or by the Indemnitees, the Trustee shall immediately convene a meeting of the Holders of Debentures with a request that they shall deposit in its hands the amount of the Financing Cushion, each in accordance with its Pro Rata Portion (as such term is defined below) for covering the expenses involved in the proceedings which the Trustee intend to institute, and provided that the Indemnitees, take all the necessary actions in order to collect the aforesaid amounts from the Company. In the event that the Debenture Holders refuse to bear the expenses involved in instituting the proceedings by the Trustee, the Trustee shall be under no obligation to institute proceedings as aforesaid. It shall hereby be clarified, that the Debenture Holders' consent as aforesaid shall not release the Company from its undertakings to bear and cover all of the reasonable expenses involved in instituting said proceedings, to the extent that such undertakings apply thereto under any law and this Indenture. In addition, all of the funds that shall be received from enforcement proceedings shall also be used for reimbursement and covering of expenses which the Debenture Holders undertook to bear as aforesaid. It is clarified that the foregoing does not exempt the Trustee from taking an urgent action required for preventing a material breach of rights of the Debenture Holders.

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The Trustee is authorized to determine the amount of the Financing Cushion and shall be entitled to repeatedly act to create an additional Financing Cushion as aforesaid, from time to time, all subject to the provisions of this Section 25. To the extent that regulations under Section 35E1 of the Securities Law shall enter into effect (and apply to the Company) in respect of depositing a deposit by the Company in favor of the Debenture Holders, such deposit shall serve in lieu of the Financing Cushion, and the provisions of this Section shall apply to such deposit, *mutatis mutandis*, subject to the provisions of any law.

For the purpose of this Section 25, its “**Pro Rata Portion**” means: the pro rata portion of Debentures held by the Holder on the relevant effective date out of the aggregate nominal value in circulation at such date. It is clarified that the calculation of the Pro Rata Portion shall remain unchanged, even if after such date, the nominal value of the Debentures held by the Holder shall have changed.

The indemnification undertakings under this Section 25 shall be referred to as the “**Indemnification Undertaking**”.

25.7. The ‘Indemnification Undertaking’:

- [a] **Shall apply to the Company** in any case of (1) actions that were taken and/or required to be taken according to the terms hereof or in order to protect the rights of the Debenture Holders (including due to a Holder’s demand which is required for such protection); and (2) actions that were taken and/or required to be taken at the Company’s demand.
- [b] **Shall apply to the Holders** who held the Debentures on the effective date (as defined below) in any case of (1) actions that were taken and/or required to be taken at the demand of the Debenture Holders (except for such actions that were taken at demand of the Debenture Holders in order to protect the rights of the Debenture Holders); and (2) the Company’s failure to pay the sum of the ‘Indemnification Undertaking’ that applies thereto under subsection [a] above (subject to the provisions of Section 25.9 below).

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For the purpose of such matter, the effective date for determining the liability of a Holder for the 'Indemnification Undertaking' is as follows: (1) in any event in which the 'Indemnification Undertaking' is required due to an urgent resolution or action which is necessary in order to prevent a material adverse impairment of the rights of the Debenture Holders, without a prior resolution of the meeting of the Debenture Holders – the effective date for the liability shall be the closing of the Trading Day on the day on which the action is taken or the resolution is adopted (the earlier thereof) and if that day is not a Trading Day, the preceding Trading Day; (2) in any event in which the 'Indemnification Undertaking' is required according to a resolution of the meeting Debenture Holders – the effective date for the liability shall be the date stated in the proof of ownership (as specified in Section 8 of the Second Schedule hereto) and it shall also apply to a Holder who did not attend or participate in the meeting.

- 25.8. In any event where: (a) the Company fails to pay the amounts required to cover the Indemnification Undertaking and/or fails to deposit the amount of the Financing Cushion, as the case may be; and/or (b) the Indemnification Undertaking applies to the Holders under the provisions of Section 25.7[b] above and/or the Holders were called to deposit the amount of the Financing Cushion under Section 25.6 above and they have failed to deposit said amount in full, the following provisions shall apply:
- 25.8.1. First – the amount shall be financed out of the sums of interest and/or principal that the Company is to pay the Debenture Holders after the date of the required action, and the provisions of Section 12 of the Indenture shall apply.
- 25.8.2. Second – if the Trustee believes that the amounts deposited under the Financing Cushion shall not suffice to cover the Indemnification Undertaking, the Holders holding on the effective date (as defined in Section 25.7 above) shall deposit in the hands of the Trustee, each in accordance with its Pro Rata Portion (as such term is defined in Section 25.6 above) the missing amount. The sum to be deposited by each Holder shall bear an annual interest at a rate equal to the interest determined for the Debentures and shall be paid by the Company in priority as set forth in Section 12 of the Indenture.
- 25.9. The payment by the Holders in the Company's stead of any sum imposed on the Company pursuant to this Section 25 shall not release the Company from its obligation to bear the said payment and the Trustee shall act reasonably to obtain the amounts from the Company, as specified in this section above.
- 25.10. It is clarified, that the Company and/or the Debenture Holders shall not be required to pay under this Section 25 any funds actually paid to the Trustee and/or any of the Indemnitee, in any manner whatsoever, in the framework of insurance purchased by the Trustee and/or the Indemnitees. For the avoidance of doubt it shall be clarified, that the indemnification amount hereunder shall apply over and above (and in addition to) an amount paid in the framework of such insurance.

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26. Reports and Notices

- 26.1. The Trustee shall be required to submit a report regarding the actions performed by it, in accordance with the provisions of Section 35H1 of the Securities Law.
- 26.2. The Trustee shall prepare an annual report on trust matters (the “**Annual Report**”), by June 30 of each year, for the previous calendar year. The Annual Report will include, *inter alia*, details of the following issues: (1) current details of the course of the trust’s affairs in the past year; (2) a report of exceptional events in connection with the trust, that occurred during the past year; The Trustee shall publish (in person or through the Company at the request of the Trustee) the Annual Report in the MAGNA system. In the event that the Trustee is informed of a material breach of this Indenture and/or of the terms and conditions of the Series L Debentures on the part of the Company, by virtue of public publications of the Company or by virtue of the Company’s notice to the Trustee pursuant to Section 31 below, it shall notify the Series L Debenture Holders of the breach and the steps taken to prevent it or to enforce the fulfillment of the Company’s undertakings to the Company, as the case may be. Such obligation shall not apply if it is an event that was published by the Company according to the law. This obligation of the Trustee is subject to its actual knowledge of the said breach.
- 26.3. As of the signing date of this Indenture, the Trustee represents that it is insured under professional liability insurance in the amount of \$ 10 million for the period (the “**Coverage Amount**”). If before the full repayment of the Series L Debentures, the Coverage Amount is reduced from \$ 8 million for any reason, the Trustee will update the Company no later than 7 business days from the date on which the abovementioned reduction was known from the Insurer in order to publish an immediate report on the subject. The provisions of this section shall apply until the coming into force of the Securities Law Regulations, which will regulate the duty of insurance coverage of the Trustee. After the said regulations come into effect, the Trustee will be required to update the Company only in the event that the Trustee fails to comply with the requirements of the Regulations, and this for the purpose of immediate reporting on the matter.
- 26.4. Any notice on behalf of the Company and/or Trustee to the Debenture Holders shall be provided by way of an immediate report on the MAGNA system only, and in the following cases only, including as required under any law, the Company shall also publish an announcement in two (2) newspapers of broad circulation, which are published in Israel in Hebrew: (a) an arrangement or settlement pursuant to Section 350 of the Companies Law; (b) a merger; provided that a newspaper publication is required under law. Any notice that was provided as aforesaid shall be deemed to have been delivered to the Debenture Holders at the date of publication on the MAGNA system or newspaper, as applicable and according to the earlier thereof.

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- 26.5. Any notice or demand on behalf of the Trustee to the Company or on behalf of the Company to the Trustee may be given by way of a letter that shall be sent by registered mail or by courier (according to the address specified in the Indenture or according to a different address of which a party shall give a written notice to the other), or – by transmitting it by fax or by e-mail. Any notice or demand that shall be sent by registered mail shall be deemed to have been received by the other party three (3) Business Days after postal dispatch thereof. Any notice or demand that shall be sent by courier shall be deemed to have been received by the other party upon its delivery by the courier to the addressee or upon the tender thereof to the addressee, as the case may be. Any notice or demand that shall be sent by fax or e-mail (in addition to telephone confirmation of receipt thereof) shall be deemed to have been received by the other party one Business Day after the transmission thereof.
- 26.6. Copies of notices that shall be provided by the Company to the Debenture Holders shall be sent by the Company also to the Trustee (and for such purpose – the issuance of an immediate report by the Company on the MAGNA system shall also be deemed a dispatch of a copy of such notice to the Trustee), and copies of notices that shall be provided by the Trustee to the Debenture Holders shall be sent by the Trustee also to the Company.
- 26.7. To the extent that the Trustee wishes to deliver a report or notice via the MAGNA system, the Trustee shall update the Company in advance prior to any report or notice filed thereby pursuant to the provisions of the Securities Law and its regulations and the provisions of this Section 26.
- 26.8. As long as no other written notice was provided by the Trustee to the Company, the Trustee's contact person in connection with this Indenture is Ori Lazar, e-mail: ori@slcpa.co.il.

27. **Waivers, Compromises and/or Changes in the Indenture**

- 27.1. Subject to the provisions of any law, the Company and the Trustee may, whether before or after the principal of the Debentures is due, change the Indenture and/or the terms of the Debentures, if one of the following applies:
- [a] If the Trustee was convinced that the change does not prejudice the Holders of the Debentures. The provisions of this sub-section shall not apply to changes in payment terms under the Debentures (including the amount of principal of the Debentures, payment dates, the interest rate, including changes in the interest rate deriving from changes in ranking), in causes for acceleration, the Company's undertakings to comply with the financial covenants, restrictions on distribution, restrictions on a series expansion, reports that the Company is obligated to provide to the Trustee, and in respect of a change of the Trustee's identity or its fees under the Indenture, for the purpose of appointing a Trustee in substitution of a Trustee whose service has ended.
 - [b] Holders of Debentures have agreed to the change in a resolution adopted at a meeting of the Holders of Debentures, in which Holders of at least fifty percent (50%) of the balance of the nominal value of the Debentures in circulation were present, or an adjourned meeting of such meeting, in which Holders of at least twenty percent (20%) of such balance were present, by a majority of Holders of at least two thirds of the balance of the nominal value of Debentures represented at the vote.
- 27.2. In addition to the provisions of sub-section 27.1 above and subject to the provisions of any law:
- [a] Other than in respect of the matters specified in Section 27.1[a] above, the Trustee may, from time to time and at any time, if it does not prejudice the rights of the Holders of the Debentures, waive any breach or non-performance of any of the terms of the Indenture by the Company.
 - [b] The Trustee shall be entitled, with a prior approval that shall be provided by a meeting of Holders of Debentures in the manner set forth in Section 27.1[b] above, settle with the Company with respect to any of their rights or claims, and to waive any of their rights or claims vis-à-vis the Company pursuant to the Indenture and the Debentures. If the Trustee settled with the Company after it received a prior approval of the Debenture Holders as aforesaid, the Trustee shall be exempt from any liability for this action, provided it did not act in malice, bad faith or negligence or in contradiction of the provisions hereof.
- 27.3. The Company and/or Trustee shall deliver to the Debenture Holders a notice of any change and/or waiver as aforesaid in sub-sections 27.1[a] or 27.2[a] above, promptly after the execution thereof.
- 27.4. In any case of exercise of the Trustee's right under this Section above with respect to the Debentures, the Trustee may demand the Debenture Holders to deliver to it or to the Company the Debenture Certificates, for the purpose of registering a note concerning any waiver, settlement, change or amendment as aforesaid, and at the Trustee's demand the Company shall register such a note on the Debenture Certificates delivered thereto.

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27.5. In addition to the aforesaid, the terms of the Debentures may be changed in the framework of an arrangement or settlement that was approved by the Court, pursuant to Section 350 and the provisions of the Third Chapter of Part Nine of the Companies Law.

27.6. To the extent that for the purpose of exchanging Debentures for debentures of another traded company, in the framework of a merger, split, re-organization of the Company or an exchange tender offer, the approval of the Debenture Holders shall be required under law, such approval shall be rendered by way of the adoption of a Special Resolution of the Debenture Holders, or in another manner permitted under law on the relevant date.

28. **The Debenture Holders' Register**

The Company shall keep, at its registered office, the Register (as defined in Section 1.7 of the Indenture) which shall be open to the inspection of any person (during reasonable activity hours and upon prior coordination) in which all of the registered Holders of the Debentures, as being from time to time, shall be registered, as well as additional details, as set forth in Section 35H3 of the Securities Law. In addition, the Register shall record other Holders, insofar as such Holders shall exist due to a split or a transfer of ownership of the Debentures, in the event that actions are taken in accordance with Section 6 of the Terms and Conditions Overleaf. The Company may close the Register from time to time for a period or periods of time that shall not exceed thirty (30) cumulative days per year.

The Company shall not be required to record in the Register any notice concerning a pledge or charge of any kind or any right in equity, claim or setoff or any other right with respect to the Debentures. The Company shall only acknowledge the ownership of the person in whose name the Debentures were registered. The legal heirs, administrators or executors of said Holder and any person who shall be entitled to the Debentures due to the bankruptcy of any registered Holder (and if it is a corporation – due to its dissolution) shall be entitled to be registered as the Holders thereof after providing evidence which in the Company's opinion shall suffice to prove their right to be registered as Holders thereof. The foregoing shall not derogate from the provisions of Section 35H3(b) of the Securities Law regarding the registration of a holder of debentures in trust.

29. **Appointment of a New Trustee and Expiry of the Trustee's Office**

- 29.1. The Trustee's office shall terminate in the cases specified in Section 35N of the Securities Law and according to the terms thereof as well as in any event of a prevention under any other statute (including under the directives of the Israel Securities Authority), applying to its office as Trustee for the Debentures.
- 29.2. In case of termination or expiry of the Trustee's office as aforesaid, the Company shall act to appoint a new trustee which shall be a trust company of one of the six (6) large banks in Israel, or any other trustee that is a company registered in Israel, that is engaged in trusts, meets the qualification requirements prescribed by the Securities Law, and is approved at the meeting of the Debenture Holders by a simple majority pursuant to the provisions of Section 35N of the Securities Law.
- 29.3. Notwithstanding the provisions of this Section above, a resolution of Holders regarding the termination of office of the Trustee and its replacement by another, shall be carried out in a meeting in which at least two Holders holding at least fifty percent (50%) of the balance of the nominal value of the Debentures are present, or an adjourned meeting in which at least two Holders holding at least ten percent (10%) of such balance are present, and by such majority at the vote as required for a Special Resolution.
- 29.4. The Trustee shall hand-over to the new trustee all of the documents and sums accrued therewith in connection with the trust bound by this Indenture, and shall execute any document required therefor. Any new Trustee shall have the same powers, obligations and authorities and it shall be able to act for all intents and purposes as if it had been initially appointed as Trustee.
- 29.5. The Company shall issue an immediate report in any event of the Trustee's resignation and/or appointment of another Trustee in its place.

30. **Holders' Meetings**

The meetings of the Holders shall be conducted as provided in the **Second Schedule** hereto.

31. **Reporting to the Trustee**

The Company shall deliver to the Trustee, as long as the Debentures are in circulation and have not yet been paid-up in full, the following reports and notices:

- 31.1. Audited annual financial statements of the Company and reviewed quarterly financial statements of the Company, immediately upon the publication thereof.

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- 31.2. Within fourteen (14) Business Days after making any payment to the Debenture Holders, the Company shall deliver to the Trustee a duly executed letter, confirming the performance of that payment to the Debenture Holders, specifying the manner of its calculation and the balance of the nominal value of the Debentures still in circulation as of the confirmation date.
- 31.3. Up to fourteen (14) Business Days from the end of each calendar quarter, the Company shall deliver to the Trustee a written and duly executed certification, whereby, to the best of its knowledge, in the period commencing on the execution date of the Indenture and/or from the date of the last certification provided to the Trustee, the later thereof, and until the date of the delivery of the certification, the Company did not breach this Indenture, including a breach of the terms of the Debentures.
- 31.4. No later than the lapse of ten (10) days after the issue date of Debentures, the Company shall submit to the Trustee a payment schedule for the Debentures (principal and interest), summarized in an Excel file.
- 31.5. The Company shall notify the Trustee immediately and in writing of any reasonable concern of the Company that any or all of the events specified in Section 10.1 above is reasonably likely to occur and of the occurrence of any or all of the events specified in the aforesaid Section.
- 31.6. The Company shall notify the Trustee of any change, to the best of its knowledge, in the rating of the Debenture, or a termination thereof.
- 31.7. The Company shall notify the Trustee of the purchase of Debentures by the Company and/or by a subsidiary of the Company.
- 31.8. The Company shall notify the Trustee in the event that the Company becomes aware of a breach of a material provision of the Indenture, immediately and in writing.
- 31.9. The Company shall notify the Trustee of new pledges on the Company's property that the Company shall register with the Registrar of Companies and/or the Registrar of Pledges, immediately and in writing.
- 31.10. In the event that the Company is a Non-Reporting Corporation (as defined below), or became such after the date of issuance of the Debentures by virtue of this Indenture, the Company shall deliver to the Trustee, in addition to the stated in this Section 31 above, the reports required in the Codex Regulations¹ or any other circular and/or document that may come in its place, and everything with the necessary changes to the Company's reporting format prior to it becoming a Non-Reporting Corporation.

In this Section: a "**Non-Reporting Corporation**" means – a corporation that is not a "Reporting Corporation" as defined in the Securities Law, and that is not a corporation traded on a foreign stock exchange, as specified in the Second or Third Schedule of the Securities Law.

¹ Codex Regulations – Principles of Business Management, title 5, part 2 – Capital, Measurement and Risk Management, chapter 4 – Management of investment assets, issued by the Commissionaire of capital markets, Insurance, and Savings in the Ministry of Treasury, as will be from time to time.

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31.11. The Company shall inform the Trustee, by no later than forty eight (48) hours of the Company first becoming aware thereof, of the appointment of a liquidator (temporary or permanent) for the Company and of the appointment of a receiver (temporary or permanent) for the Company.

The issuance by the Company of documents as set forth in this Section on the MAGNA system, shall be deemed a delivery of the documents required above to the Trustee (it is clarified, that the foregoing does not obligate the Company to issue such documents on such systems).

32. **Rating**

To the extent under its control, the Company undertakes to act to cause the Debentures to be subject to a rating watch of at least one Rating Agency. In respect of such matter, it is clarified, that the transfer of the Debentures to a watch list or any other action performed by the Rating Agency shall not be deemed a termination of rating.

The Company may, at its sole discretion, replace the Rating Agency throughout the entire lifetime of the Debentures, provided that the new rating agency shall be a Rating Agency, as defined in Section 1 above. The Company shall not require an approval of the Trustee or the Debenture Holders for replacing the Rating Agency as aforesaid.

In the event of a replacement of the Rating Agency, the Company shall issue an immediate report specifying the grounds for the replacement of the Rating Agency, within one Trading Day of the occurrence thereof. In the event that the Debentures shall no longer be rated (i.e. shall not be rated by any Rating Agency), the Company shall notify the Trustee in writing of the grounds for the termination of rating, immediately and by no later than one Business Day of the date of the termination of rating.

33. **Applicable Law and Jurisdiction**

The exclusive law governing the Indenture and the Debentures is the Israeli law. The Courts in the city of Tel Aviv-Jaffa shall have a unique and exclusive jurisdiction in any conflict regarding the Indenture and the Debentures.

34. **Liability of the Trustee**

Notwithstanding the provisions of any law and Indenture, as long as the Trustee fulfills his responsibility in good faith and within a reasonable time and also inquires the facts that a reasonable trustee would have inquired under the circumstances, the Trustee shall not be liable to a Debenture Holders for any damage caused to it as a result of the Trustee using his discretion under the provisions of sections 35H(d1) or 35I1 of the Securities Law, unless the plaintiff proves that the Trustee acted with severe negligence, maliciously and and/in bad faith. It is clarified, that in case of a contradiction between the provisions of this Section and another provision in this Indenture, the provisions of this Section shall prevail.

If the trustee acted in good faith and without negligence according to the provisions of section 35H(d2) or 35H(d3) of the Securities Law, it shall not be liable for the performance of the said action.

35. **Additional Provisions**

The Trustee must submit a report regarding the actions it performed in accordance with the provisions of Chapter E1 of the Law, at the reasonable demand of the Holders of Debentures holding at least ten percent (10%) of the balance of the principal of the Debenture, within a reasonable time from the date of the demand, all subject to the confidentiality obligation of the Trustee vis-à-vis the Company as provided in Section 35J(D) of the Law.

At the demand of Holders of Debentures holding more than five percent (5%) of the balance of the principal of the Debenture, the Trustee shall transfer to the Holders of Debentures data and details concerning its expenses in connection with the trust which is the subject matter of the Indenture.

36. **Authorization for MAGNA**

For the purpose of registering the Debentures for trade on TASE, by signing this Indenture the Trustee authorizes any of the Company's electronic authorized signatories to report in its name of its engagement herein and its execution hereof on the MAGNA system.

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In witness whereof the parties have hereunto set their hands:

Cellcom Israel Ltd.

Strauss Lazar Trust Company (1992) Ltd.

Signed by: Liat Menahemi Stadler
Vice President of Legal Affairs and Corporate Secretary

Attorney's Certification

I, the undersigned, Adv. Tamar Enav, hereby certify that this Indenture was duly executed by the authorized signatories of Cellcom Israel Ltd., Ms. Liat Menahemi Stadler.

Tamar Enav, Adv.

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Cellcom Israel Ltd.

First Schedule

Series L Debenture Certificate

Registered Debentures

Certificate no. _____

Par value of this certificate: NIS _____.

The registered Holder of this Debenture: _____.

1. This certificate attests that Cellcom Israel Ltd. (the “**Company**”) shall pay to the Holders of the Series L Debentures principal and interest payments on such dates, pursuant to such payment terms and in accordance with such other terms and conditions as set forth in the Terms and Conditions Overleaf in the Indenture dated January 21, 2018, between the Company, of the first part, and Strauss Lazar Trust Company (1992) Ltd., of the second part, by virtue of which the Debentures contemplated herein were issued, all of which constitute an integral part of this Debenture.
2. This Debenture is issued as part of a series of Debentures pursuant to identical terms to the terms of this Debenture. The Debentures of the same series in circulation shall rank *pari passu* with each other, without any preference or priority of the one over the other.
3. It is clarified that the provisions of the Indenture shall constitute an integral part of the provisions of this Debenture, and shall bind the Company and the Holders of the Series L Debentures.
4. This Debenture is issued subject to the Terms and Conditions Overleaf and the terms of the Indenture, constituting an integral part of the Debenture.

Signed by the Company on: _____

Cellcom Israel Ltd.

Signed by: _____

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The Terms and Conditions Overleaf

The Terms and Conditions Overleaf, as specified in this part below, constitute an integral part of the Indenture (as defined below).

1. **General**

- 1.1. In this Debenture, the expressions in Section 1 of the Indenture shall bear the following meanings, unless another intention is implicated from the content of matters or the context thereof.
- 1.2. The terms and conditions of the Debentures (the Terms and Conditions Overleaf) are an integral part of the provisions of the Indenture and the provisions of the Indenture shall be deemed to have been expressly included in the terms of these Debentures.

2. **The Debentures**

- 2.1. Registered Series L Debentures, of NIS 1 par value each, which shall mature (principal) in 6 (six) unequal annual payments which shall be paid on January 5 of each of the years 2023 to 2028 (inclusive), as follows: (1) 4 (four) equal payments of 15% of the amount of the original principal of the Series L Debentures on January 5 of each of the years 2023 to 2026; and (2) 2 (two) equal payments of 20% of the amount of the original principal of the Series L Debentures on January 5 of each of the years 2027 and 2028.
- 2.2. The principal of the Series L Debentures shall bear an annual interest at a rate which shall be determined in a tender that shall be held in connection with their initial offering. The interest on the unpaid balance of the Series L Debentures shall be paid in annual payments on January 5 of each of the years 2019 to 2028 (inclusive) for the interest period ending on the payment date (the "**Interest Period**"). For details of an adjustment mechanism of the interest rate as a result of a change of the rating of the Debentures, see Section 2.6 below.

The Series L Debentures shall not be linked (principal and interest) to any index or currency whatsoever.
- 2.3. The first interest payment shall be paid for the period commencing on the Trading Day transpiring after the day of the tender and ending on the first interest payment date, calculated on the basis of 365 days a year according to the number of days in the aforesaid period. Each additional Interest Period of the Debentures, shall commence on the first day after the end of the preceding Interest Period, and shall conclude at the end of the Interest Period (i.e., on the next payment date after the commencement date thereof).

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- 2.4. The interest rate for the first Interest Period of the Debentures, the annual interest rate and the interest rate for the period on the basis of which it shall be determined, shall be specified in an immediate report to be issued by the Company in respect of the results of the tender pursuant to which the initial offering of the Debentures is to be effected.
- 2.5. The last installment of interest on the principal of the Debentures shall be paid together with the last payment on account of the principal of the Debentures, against the delivery of the Debenture Certificates to the Company, on the date of payment, at the Company's registered office or at any other location of which the Company will inform at least five (5) Business Days before the last payment date.
- 2.6. If after the date of the initial issuance of the Debentures, the series shall be expanded by the Company, the Holders of Debentures which will be issued within the framework of the expansion of such series, will not be entitled to receive payment on account of principal and/or interest for the Debentures, the effective date for payment of which occurs prior to the date of issuance as aforesaid.
- 2.7. Adjustment mechanism to the interest rate as a result of a change of rating
- 2.7.1. If the rating of the Debentures by Standard and Poor's Maalot or any other Rating Agency that shall replace it (the "**Rating Agency**") shall be updated in the course of any Interest Period, such that the rating determined for the Debentures shall be two ranks lower (the "**Downgraded Rating**") than an A+ rating (or a parallel rating in lieu thereof as shall be determined by another Rating Agency, to the extent it shall substitute the aforesaid Rating Agency) (the "**Base Rating**"), the annual interest rate borne by the unpaid balance of the Debentures shall be increased by a rate of 0.5% over and above the annual interest rate borne by the Debentures (the "**Base Interest**") for the period commencing on the next Interest Period (i.e. the Interest Period commencing immediately after the period during which the relevant rating change transpired), and until the full discharge of the unpaid balance of the Debentures or alternatively, until the Downgraded Rating shall rise back to the Base Rating, the earlier thereof (in which case the provisions of Section 2.7.5 below shall apply). It is clarified that no additional interest shall be received for the period from the downgrading of the rating and until the end of the Interest Period during which the Debentures' rating was updated and that the interest shall not be decreased for the period commencing as of the date on which the rating was raised back to the Base Rating (or a higher rating) and until the end of the Interest Period during which the Debentures' rating was updated.

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- 2.7.2. The interest rate borne by the Debentures shall be updated also in case of additional rating downgrade(s) beyond the Downgraded Rating (collectively, the “**Additionally Downgraded Rating**”) such that: (a) in the event that the rating determined is one rank lower than the Downgraded Rating – the annual interest rate borne by the unpaid balance of the Debentures shall increase by an additional rate of 0.25%, such that it shall equal the Base Interest plus 0.75%; (b) in the event that the rating determined is two ranks lower than the Downgraded Rating – the annual interest rate borne by the unpaid balance of the Debentures at the additional rate of 0.25%, such that it shall equal the Base Interest plus 1.00%.

For the avoidance of doubt, the provisions of Section 2.7.1 regarding the period in respect of which the additional interest shall be paid, shall also apply to the additional interest pursuant to this Section 2.7.2.

It is clarified, that in any event, the Base Interest shall not be increased by more than 1% as a result of a downgrading of the rating compared to the Base Rating.

- 2.7.3. By no later than one Business Day of receipt of the notice of the Rating Agency regarding the downgrading of the Debentures' rating to the Downgraded Rating, as defined in Section 2.7.1 above, or to the Additionally Downgraded Rating, the Company shall issue an immediate report in which it shall state: (a) the fact that the rating was downgraded, the Downgraded Rating (or the Additionally Downgraded Rating) and the commencement date of rating the Debentures pursuant to such rating (the “**Rating Downgrading Date**”); (b) the updated annual interest rate and the updated semi-annual interest rate (that shall be calculated as the updated annual interest divided by two) that shall be borne by the principal of the Debentures for the period commencing on the next interest date (i.e. that commencing immediately after the period during which the relevant change of rating occurred).

It shall be clarified that in any event of a change in the interest rate due to the aforementioned change of rating set forth under this section, no change shall be made in regard of the payment dates (principal or interest) or the effective date.

- 2.7.4. It is clarified that the replacement of the Rating Agency (if and to the extent that the Company decides to replace it, as set forth in Section 32 of the Indenture), shall not affect the interest rate as provided in Sections 2.7.1 and/or 2.7.2 above and the provisions of this Section 2.7 shall not apply in any event, provided that the rating by the new Rating Agency shall be parallel to the rating of the current Rating Agency at the replacement date.
- 2.7.5. It shall be clarified, that in the event that after the downgrading of the rating in a manner affecting the interest rate borne by the Debentures as aforesaid, the Rating Agency shall upgrade the Debentures' rating, to a rating that is higher than the Downgraded Rating (and respectively, to a rating higher than the Additionally Downgraded Rating) (the "**Upgraded Rating**"), then the annual interest rate payable by the Company to the Debenture Holders shall be decreased by an annual rate of 0.25% for each rank up to a rating exceeding the Downgraded Rating, in which case the annual interest rate borne by the unpaid balance of the principal of the Debentures shall be the Base Index rate without any addition, for the period commencing on the beginning of the next Interest Period (i.e. the period commencing immediately after the period during which the relevant rating change transpired), and until the full discharge of the unpaid balance of the principal of the Debentures or until a change in the rating of such Debentures in accordance with and subject to the provisions of this Section 2.7.
- 2.7.6. For the avoidance of doubt, it is clarified that a change in the rating outlook of the Debentures shall not cause a change in the interest borne by the Debentures as set forth in this Section above.
- In addition, and notwithstanding the provisions of this Section 2.7, a rating downgrade of the Debentures, effected in the context of a rating update of all of the companies in Israel that are engaged in one or more of the Company's business segments, solely as a result of a change of the methodology of the Rating Agency, shall not cause a change of the interest rates borne by the Debentures.
- 2.7.7. The Company undertook, in Section 32 of the Indenture, that insofar under its control, it shall act to cause the Debentures to be subject to a rating coverage by at least one Rating Agency, for as long as Debentures of that series are in circulation.

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3. **Payments of the Principal and Interest of the Debentures**

- 3.1. The payments on account of the interest and/or principal of the Series L Debentures shall be made to the persons whose names will be registered on the Register (as defined in Section 1 above) on December 30th, as applicable (the "**Effective Date**"), other than the final installment of the principal and interest which will be paid against the delivery of the Debenture Certificates to the Company on the payment date, at the Company's registered office or at any other location of which the Company will inform at least five (5) Business Days before the last payment date.
- 3.2. It is clarified that anyone who is not registered on the Register on the Effective Date shall not be entitled to an interest payment for the Interest Period which commenced prior to such date.
- 3.3. In any event that the date of payment of the installment on account of the principal and/or interest will fall on a day which is not a Business Day, the payment date shall be postponed to the first Business Day thereafter, for no added payment, and the "Effective Date" for the purpose of determination of the entitlement to redemption or interest shall not change as a result thereof.
- 3.4. All installments on account of a principal and/or interest which will be paid in an arrears of more than fourteen (14) Business Days from the date scheduled for the payment thereof pursuant to the terms of the Debentures, for reasons within the Company's control, shall bear arrears interest, commencing from the date which is scheduled for the payment thereof until the actual date of payment thereof. In this regard, arrears interest shall mean an annual interest rate of 3.5% which shall be added to the interest borne by the Debentures at such time. In the event of arrears as aforesaid, the Company shall notify of the exact total interest rate to be paid and the new payment date, in an immediate report, at least two (2) Trading Days prior to the actual payment of the principal and interest which were not paid as aforesaid.
- 3.5. The payment to entitled persons shall be performed by way of check or wire transfer to the credit of the bank account of the persons whose names will be registered on the Register and which will be specified in the details which will be delivered to the Company in advance, according to the provisions of sub-section [f] below. If the Company will be unable to pay any amount to those who are entitled thereto, for a reason beyond its control, the provisions of Section 15 of the Indenture shall apply.

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- 3.6. A registered Debenture Holder shall inform the Company of the details of the bank account to be credited with the payments pursuant to the Debentures as aforesaid, or of a change in the details of such account or his address, as the case may be, in a written notice which he will dispatch via registered mail to the Company. The Company shall be obligated to act according to the notice of a registered Holder pertaining to such change after the lapse of fifteen (15) Business Days from the date on which his notice shall have reached the Company.
- 3.7. If a registered Holder of the Debentures who is entitled to payment as aforesaid shall not have delivered details pertaining to his bank account to the Company in advance, each payment on account of the principal and interest shall be performed by way of check which shall be dispatched via registered mail to his last address registered on the Register. The dispatch of a check to a registered Holder via registered mail as aforesaid shall be deemed, for all intents and purposes, as payment of the amount which is stated therein on the date of dispatch thereof via mail, unless it shall not have been cleared at the time of its lawful presentation for collection.
- 3.8. Any and all mandatory payments shall be deducted from each payment due to the Debentures, to the extent required under the law.

4. **Refrainment from Payment for a Reason which is Beyond the Company's Control**

For details on refrainment from payment for a reason which is beyond the Company's control, see Section 15 of the Indenture.

5. **The Debenture Holders' Register**

For details on the Register of the Debenture Holders, see Section 28 of the Indenture.

6. **Transfer and Split of Debentures**

Debentures are transferrable with respect to any nominal amount, provided that it will be in whole New Israeli Shekels. Any transfer of the Debentures (excluding a transfer executed through trade on TASE or a transfer between accounts of Holders holding via TASE members) will be effected by way of a deed of transfer in a standard form for transferring shares, duly signed by the registered Holder or the lawful representatives thereof and by the transferee or the lawful representatives thereof, which shall be delivered to the Company at its registered office, together with the Debenture Certificates transferred thereby and any other reasonable proof required by the Company in order to prove the transferor's right to transfer such.

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Subject to the foregoing, procedural provisions included in the Company's Articles of Association in respect of the manner of transfer of shares, shall apply, *mutatis mutandis*, to the manner of transfer and endorsement of the Debentures.

If any mandatory payment shall apply to the Debentures' deed of transfer, the Company shall be provided with reasonable evidence for its payment by the transfer applicant.

In the event of a transfer of only part of the principal amount stated in the Debenture Certificate, the Debenture Certificate should first be split into several Certificates, in the manner specified in this Section below, into such number of Debenture Certificates mandated thereby, such that the total principal amounts specified therein are equal to the principal amount specified in the Debenture Certificate sought to be split.

After the fulfillment of all such conditions, the transfer will be registered in the Register and the transferee shall be bound by all of the terms specified in the Indenture and in this Debenture and he will be deemed a "Holder" for the purposes of the Indenture.

All of the expenses and fees entailed by the transfer of the Debentures will be borne by the transfer applicant.

Each Debenture Certificate may be split into several Debenture Certificates, the total principal amounts stated thereon are equal to the nominal amount of principal of the Certificate sought to be split, provided that the said Certificates will not be issued, except at a reasonable quantity. The split will be affected against the delivery of such Debenture Certificate to the Company at its registered office for the execution of the split, together with a split application, duly signed by the applicant. All of the expenses entailed by the split, including taxes and levies, if any, will be borne by the split applicant.

7. **Early Redemption**

For details as to early redemption of the Debentures by the TASE and/or by the Company, see Section 9 of the Indenture.

8. **Waivers, Compromises and/or Changes in the Indenture**

For details as to the Company's and/or the Trustee's authority to make a modification, waiver, compromise and/or changes in the conditions of the Debentures, see Section 27 of the Indenture.

9. **Debenture Holders' Meetings**

The general meetings of Debenture Holders will be convened and conducted in accordance with the provisions of the Second Schedule of the Indenture.

10. **Replacement of Debenture Certificates**

In the event where a Debenture Certificate wears out, is lost or destroyed, the Company will be entitled (subject, *inter alia*, to receipt of evidence to its satisfaction of the ownership of the Holder in the Debentures) to issue in its stead (subject to the terms set forth in this Section) a new Certificate for the Debentures and pursuant to the same conditions in respect of proof, indemnification and coverage of reasonable expenses incurred by the Company in investigating the ownership right of the Debentures, as the Company deems fit, and in the event of wear, the worn Certificate will be returned to the Company prior to the issuance of a new Certificate. Taxes and other levies, as well as other expenses entailed in the issuance of a new Certificate, if any, will be borne by the applicant requesting such Certificate (including expenses pertaining to the proof of his ownership of the Debentures and pertaining to indemnification and/or insurance coverage requested by the Company, if requested, with respect thereto).

11. **Applicable Law and Jurisdiction**

The exclusive law governing the Indenture and the Debentures is the Israeli law. The Courts in the city of Tel Aviv-Jaffa shall have a unique and exclusive jurisdiction in any conflict regarding the Indenture and the Debentures.

12. **Notices**

For details as to notices, see Section 26 of the Indenture.

13. **Urgent Representative Body of the Debenture Holders**

13.1. **Appointment; Term of office**

13.1.1. The Trustee shall be entitled, or at the Company's written request – it shall be obligated, to appoint and convene an urgent representative body out of the Debenture Holders, as shall be specified below (the "**Urgent Representative Body**").

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- 13.1.2. The Trustee shall appoint to the Urgent Representative Body, the three (3) Debenture Holders, who, according to data it shall have received from the Company or pursuant to its best knowledge, hold the highest nominal value out of all of the Debenture Holders, and who declared that all of the following conditions are true in respect thereof (the **"Members of the Urgent Representative Body"**). In the event that any such Holder is unable to serve as a Member of the Urgent Representative Body, as aforesaid, the Trustee shall appoint, in lieu of said Debenture Holder, the Holder holding the next highest nominal value, in respect of whom all of the conditions specified below are fulfilled. And these are the conditions:
- 13.1.2.1. The Debenture Holder is not in a material conflict of interests due to the existence of any additional material matter which conflicts with the interest deriving from his service on the Urgent Representative Body and his holding of the Debentures. For the avoidance of doubt it shall be clarified, that a Holder who is an Affiliated Holder (as defined in Section 8.2 of the Indenture) shall be deemed to be in a material conflict of interests as aforesaid, and shall not serve as a Member of the Urgent Representative Body;
- 13.1.2.2. In the course of the same calendar year, the Debenture Holder does not serve on similar representative bodies of other debentures, the aggregate value of which exceeds the rate out of the asset portfolio managed by such Holder, that was determined as the maximal rate allowing service on urgent representative bodies under the directives of the Antitrust Commissioner which apply to the establishment of urgent representative bodies.
- 13.1.3. In the event that during the service of the Urgent Representative Body, one of the circumstances specified in Sections 13.1.2.1 to 13.1.2.2 above shall have ceased to exist in respect to one of its members, his office shall expire and the Trustee shall appoint one member in his stead out of the Debenture Holders as set forth in Section 13.1.2 above.
- 13.1.4. Prior to the appointment of the Members of the Urgent Representative Body, the Trustee shall receive from the candidates for service as Members of the Urgent Representative Body, a declaration as to the existence or absence of material conflicts of interests as set forth in Section 13.1.2.1 above and as to the service on additional representative bodies as set forth in Section 13.1.2.2 above. In addition, the Trustee shall be entitled to demand such a declaration from the Members of the Urgent Representative Body at any time during the service of the Urgent Representative Body. A Holder who fails to deliver such declaration shall be deemed to be found in a material conflict of interests or to be precluded from holding such office pursuant to the directives of the Antitrust Commissioner as aforesaid, as the case may be. In respect of a declaration of conflict of interests, the Trustee shall examine the existence of conflicting interests, and to the extent required, shall decide whether the conflict of interests disqualify that Holder from serving on the Representative Body. It is clarified, that the Trustee shall rely on such declarations and shall not be required to hold an additional independent examination or investigation. The determination of the Trustee in respect of such matters shall be conclusive.

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13.1.5. The term of office of the Urgent Representative Body shall end on the date on which the Company shall publish the decisions of the Urgent Representative Body regarding the affordance of an extension to the Company for the purpose of its compliance with the terms of the Indenture as specified in Section 13.5 below, but in any event shall not exceed three months of the date of appointment thereof.

13.2. Authority

13.2.1. The Urgent Representative Body shall be authorized to afford a one-time extension to the Company in connection with the dates for complying with the financial covenant prescribed by the Indenture in a manner whereby the cause of acceleration set forth in Sections 10.1.17 and 10.1.18 of the Indenture shall be removed for the period of the extension, to the extent afforded, for a period of up to 90 days or until the date of publicity of the next financial statements, the earlier thereof. It shall be clarified, that the period of time until the appointment of the Urgent Representative Body shall be taken into account in the framework of such extension, and it shall not serve as cause to afford any additional extension to the Company over and above the aforesaid. It shall be clarified, that the actions of the Urgent Representative Body and the cooperation among its members, shall be limited to deliberating the possibility of affording an extension as aforesaid, and that no other information which does not pertain to the affordance of such extension shall be transferred between the Members of the Representative Body.

13.2.2. Should an Urgent Representative Body not have been appointed in accordance with the provisions of this Section 13, or if the Urgent Representative Body has decided not to afford such extension to the Company as set forth in Section 13.2.1 above, the Trustee shall act in accordance with the provisions of Section 10.2 of the Indenture.

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13.3. The Company's undertakings in respect of the Representative Body

- 13.3.1. The Company undertakes to provide the Trustee with any information that the Company possesses or is able to obtain in connection with the identity of the Debenture Holders and the scopes of their holdings. In addition, the Trustee shall act to obtain such information in accordance with the authorities legally conferred thereon.
- 13.3.2. The Company undertakes to act in full cooperation with the Urgent Representative Body and the Trustee to the extent necessary in order to perform the inquiries required thereby and to form the decision of the Urgent Representative Body, and to transfer to the Urgent Representative Body all of the data and documents which it may require in respect of the Company, subject to legal limitations and the execution of an appropriate confidentiality agreement. Without derogating from the generality of the foregoing and subject to the execution of said confidentiality agreement, the Company shall deliver to the Urgent Representative Body the relevant information for the purpose of forming its decision, which shall not include any misleading detail and shall not be incomplete.
- 13.3.3. The Company shall bear the costs of the Urgent Representative Body, including the costs of engaging consultants and experts by the Urgent Representative Body or on behalf thereof, pursuant to the provisions of Section 23 of the Indenture.

13.4. Liability

- 13.4.1. The Urgent Representative Body shall act and decide on the matters under its authority, according to its sole discretion and shall not be liable, neither it nor any of its Members, the officers therein, employees or consultants thereof, and the Company and the Debenture Holders hereby relieve them of liability for any allegations, demands and claims against them for using or refraining from using the powers, authorities or discretion vested to them under the Indenture and this Schedule and in connection thereof or from any other action they performed in accordance thereof, unless they have so acted in malice and/or in bad faith.
- 13.4.2. The indemnification provisions set forth in Section 25 of this Indenture shall apply to the actions of the Members of the Urgent Representative Body and anyone on their behalf, as if they were the Trustee.

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- 13.5. The Company shall issue an immediate report regarding the appointment of the Urgent Representative Body, the identity of its Members and its authorities, and shall issue an additional immediate report regarding the decisions of the Urgent Representative Body as aforesaid and an immediate report regarding the termination of office of the Urgent Representative Body.
- 13.6. The appointment of the Urgent Representative Body shall not derogate from the Trustee's right to convene a meeting of Holders of Debentures to the extent it so deems necessary. In such event, the resolutions of the Holders' meeting shall govern the decisions of the Urgent Representative Body.

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Second Schedule

Debenture Holders' Meetings

In any event that a different and/or supplementary mechanism for convening and/or holding of meetings of Debenture Holders shall be prescribed under any mandatory law, including pursuant to the TASE Directives, the provisions of this Schedule shall be automatically adjusted to the provisions of the law, to the extent and insofar as the provisions of such law so mandate.

Without derogating from any other provision prescribed under mandatory law or the Indenture, the following provisions shall apply to meetings of Holders of Debentures:

Calling Debenture Holders' meetings

1. The Trustee, if it deems it necessary (or if necessitated under law), or the Company, may convene a meeting of the Debenture Holders. In the event that the Company convenes such a meeting, it must immediately send written notice of the place, date and time of the meeting, as well as of the matters to be discussed therein, to the Trustee. In case the Trustee calls such meeting, it must send written notice of the place, date and time of the meeting, as well as of the matters to be discussed therein, to the Company.
2. The Trustee shall convene a Holders' meeting at the demand of one or more Debenture Holders, holding at least five percent (5%) of the balance of the nominal value of the Debentures. The Trustee may demand indemnification from the Holders requesting the meeting, including in advance, for the reasonable expenses involved therein. It shall be clarified, that the Trustee's demand for indemnification shall not prejudice the calling of a meeting which was summoned for the purpose of taking an action intended for the prevention of a breach of the rights of the Debenture Holders.
3. A Trustee required to convene a Holders meeting pursuant to Section 2 hereof, shall convene it within twenty one (21) days of the day on which the demand was submitted thereto, for a date to be determined in the notice, provided that the date of convening of the meeting shall not be earlier than seven (7) days and not be later than twenty one (21) days of the date of the notice; provided that the Trustee may convene the meeting earlier, if it believes that this is required for the protection of the Holders' rights and subject to the provisions of Section 7 hereof. In such event, the Trustee shall provide the reasons for convening the meeting earlier in the report of the meeting's notice.

Had the Trustee failed to convene a Holders' meeting at the demand of a Holder as aforesaid, within the period prescribed above, the Holder may convene the meeting, provided that the date of the meeting shall be within fourteen (14) days of the end of the period for convening the meeting by the Trustee, and the Trustee shall bear the expenses incurred by the Holder in connection with the convening of the meeting.

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4. In the event that a Holders' meeting was not held as set forth in Sections 2 and 3 hereof or as set forth in Section 35B(a1) of the Securities Law, the Court shall be entitled, at the request of a Debenture Holder, to order the convening thereof. Should the Court order as aforesaid, the Trustee shall bear the reasonable expenses incurred by the applicant in the Court proceeding, as shall be determined by the Court.
5. The Court may, at the request of a Debenture Holder, order the revocation of a resolution adopted at a Holders' meeting that was convened or conducted without the terms prescribed therefor under the Securities Law or the Indenture being fulfilled. In case the fault pertains to the notice regarding the place or time of convening the meeting, a Debenture Holder who appeared at the meeting, notwithstanding the fault, may not demand the revocation of the resolution.
6. Any meeting of Debenture Holders will take place at the registered office of the Company, or at another address of which the caller of the meeting shall notify, and in any event it shall be held in Israel.

Effective date; Proof of ownership of Debentures

7. The effective date for ownership of Debentures - Debenture Holders entitled to participate and vote at the Holders' meeting are Holders of Debentures at the date prescribed in the notice of the Holders' meeting, provided such date shall be no less than three (3) trading days prior to the date of convening of the Holders' meeting, and shall be no more than fourteen (14) day prior to the date of the meeting.
8. A Debenture Holder wishing to vote at a Holders' meeting is entitled to receive, without condition, from the TASE member through which the Debentures are held, a confirmation proving his ownership of the Debentures. The Debenture Holder shall deliver to the Company at its registered office (or to the entity calling the meeting at the address determined by such entity), by the date as determined by the caller of the meeting in the invitation to the meeting, a confirmation of ownership as aforesaid from the TASE member through which the Debentures are held, as to the number of Debentures held by the Holder as stated as of the date specified in such confirmation, together with a proxy if the confirmation of ownership is not in the name of the entity participating at the meeting.

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The chairperson of the meeting

9. In each Holders' meeting, the Trustee or a person appointed thereby shall reside as the chairman of such meeting.

Legal quorum: Adjourned meeting

10. A Debenture Holders' meeting will open after it has been proven that the legal quorum required for holding a discussion in respect of any of the issues on the agenda of the meeting is present. In a Debenture Holders' meeting, only resolutions which were included in the meeting's agenda, and with respect to which the legal quorum required for adoption thereof is present, will be put to the vote. For the purpose of counting the Holders for determining the presence of the legal quorum required for discussing a certain matter at a Holders' meeting, see Section 15 of this Schedule below, and the provisions of Sections 37 to 45 of this Schedule shall apply to the counting of votes at a Holders' meeting.
11. In meetings of Debenture Holders, but except in regards to resolutions in respect of which a different quorum is prescribed by mandatory law and/or by the Indenture, two Debenture Holders or more, present in person or by proxy at the meeting within half an hour of the time prescribed for opening the meeting, and holding or representing together twenty five percent (25%) of the voting rights by virtue of the Debentures, shall constitute a legal quorum.
12. If, within half an hour of the time set for the beginning of the meeting, a legal quorum will have not been present at the Holders' meeting, the meeting shall be adjourned to another date which shall not be earlier than two (2) Business days after the date prescribed for the convening of the original meeting, or not earlier than one (1) Business Day, if the Trustee believed that it is necessary for the protection of the Holders' rights in the Debentures. In the event that the meeting was adjourned, the Trustee will specify the reasons therefor in the report of the meeting's notice.
13. In the event that a legal quorum will have not been present at the adjourned Holders' meeting as aforesaid in Section 12 hereof, within half an hour of the time set for the beginning thereof, the meeting shall be held at any number of participants, unless a different requirement is prescribed by the Securities Law or the Indenture. Notwithstanding the foregoing, if the Holders' meeting was convened at the demand of Holders as set forth in Section 2 hereof, the adjourned Holders' meeting may be held only if at least such number of Debenture Holders as required in said Section for convening such a meeting are present.

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14. With respect to a meeting on the agenda of which is a proposal to approve a Special Resolution, two Debenture Holders or more, present in person or by proxy thereof at the meeting and holding or representing together at least fifty percent (50%) of the unpaid balance of the nominal value of the Debentures in circulation, will constitute a legal quorum. If, within half an hour of the time set for the beginning of the meeting, a legal quorum as aforesaid will not have been present, the meeting shall be adjourned and the provisions of Section 12 above shall apply, *mutatis mutandis*. At a meeting on the agenda of which is a proposal to approve a Special Resolution which was adjourned as aforesaid, two Debenture Holders or more, present in person or by proxy in the meeting and holding or representing together at least twenty percent (20%) of the unpaid balance of the nominal value of the Debentures in circulation, will constitute a legal quorum.
15. The vote of a Debenture Holder that is an Affiliated Holder, shall not be counted for the purpose of determining the presence of a legal quorum required to open a Holders' meeting (including an adjourned meeting). However, the votes of whomever the Trustee has determined, according to the provisions of this Schedule and/or any other law, to be a Holder of Conflicting Interest (as defined in Section 38 of this Schedule below), shall be counted for the purpose of determining the presence of a legal quorum (including an adjourned meeting).

Follow-on meeting

16. A Holders' meeting in which a legal quorum is present, or the Trustee, may resolve to postpone the continuation of the meeting, the discussion or the adoption of a resolution in respect of an issue specified in the agenda, to another date and place to be determined (a "**Follow-on Meeting**"). A Follow-on Meeting of Holders, shall only deliberate such issue which was on the agenda and in respect of which a resolution was not adopted. In the event that the Holders' meeting was adjourned as aforesaid without changing its agenda, invitations regarding the date of the new meeting shall be provided as soon as possible, and by no later than twelve (12) hours prior to the convening of the new Holders' meeting. Such invitations shall be issued in accordance with Section 31 of this Schedule.

Vote: Required majority

17. At any meeting of Debenture Holders, any Debenture Holder, who is present therein in person or by proxy thereof, is entitled to one vote for every NIS 1 par value of the principal of the Debentures by virtue of which he is entitled to vote subject to the provisions of the Indenture. The Trustee, who shall participate in a meeting, will participate without a voting right.
18. In the event of joint Debenture Holders, only the vote of the Holder listed first from among them in the Register for same series, seeking to vote either in person or by proxy thereof, will be counted.
19. A resolution at a Holders' meeting, will be decided by a count of votes.

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20. Resolutions of Holders' meeting shall be adopted by a simple majority, unless a different majority is prescribed by the Securities Law or the Indenture or if the Trustee determined, pursuant to its authorities under the Indenture, that a resolution shall be adopted by a majority which is not a simple majority. The majority required for the adoption of a Special Resolution at a Holders' meeting is a majority of at least seventy-five (75%) of all of the participating votes, excluding abstainers.
21. The announcement of the chairperson with respect to the adoption or rejection of a resolution and an entry to this effect in the book of minutes, will serve as *prima facie* evidence of its adoption or rejection as aforesaid.
22. A Debenture Holder may vote in Holders' meetings by himself or via proxy and also by way of a voting card in which he shall state the manner of his vote, as specified in Section 28 hereof. A Debenture Holder is entitled to vote in Holders' meetings also by means of an electronic voting system. A proxy appointment form shall be made in writing and signed by the principal or by an attorney thereof duly authorized in writing to do so. If the principal is a corporation, the appointment will be made in writing, signed by the corporate stamp together with the signature of a corporate official or an attorney of the corporation who is authorized to do so. The proxy appointment form will be drawn-up in any standard form. A proxy does not have to be a Debenture Holder himself.
23. A proxy appointment form and the power of attorney pursuant to which the appointment form was signed, or a certified copy of such power of attorney, will be deposited with the Company's registered office (or with the entity calling the meeting at the address determined by such entity) by a date as shall be determined by the entity calling the meeting in the meeting's notice, unless otherwise determined by the caller of the meeting in the notice calling the meeting. The appointment form will be valid for any adjourned meeting of a meeting referred to in the appointment form, provided that the appointment form does not stipulate otherwise.
24. A vote, which was made in accordance with the conditions of the document appointing a proxy, will be valid even if prior thereto the principal will have passed away or declared legally incompetent or the appointment form will have been revoked or the Debenture with respect to which the vote was granted will have been transferred, unless a written notice of the passing, the incompetence decision, the revocation or the transfer, as applicable, will have been received at the Company's registered office (or by the entity calling the meeting at the time set by such entity), before the meeting.
25. A Debenture Holder or his proxy may cast some of his votes in favor of a certain proposed resolution, and some against, and abstain in respect of others, all as he deems fit.

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26. A Debenture Holder shall refrain from abusing his power in voting at the Holders' meeting.

Minutes

27. The Trustee will take minutes of the Holders' meeting and shall keep them at its registered office for a period of seven (7) years of the date of the meeting. Minutes executed by the chairperson of the meeting shall serve as *prima facie* evidence of the stated therein. The minutes' register of Holders' meetings shall be maintained at the registered office of the Trustee, and shall be open for the inspection of the Debenture Holders and a copy thereof shall be sent to any Debenture Holder requesting the same.

Voting Card

28. Debenture Holders may vote in a meeting of Debenture Holders by way of voting cards. A voting card shall be delivered by the Trustee to all of the Debenture Holders. A Debenture Holder may state the manner of his vote in the voting card and send it to the Trustee. The wording of the voting cards shall be delivered to the Holders by the Trustee prior to the close of the meeting, by way of an immediate report. Subject to the provisions of the Securities Law and its regulations, a Holder is entitled to receive, without condition, a voting card from the TASE member through which the Debentures are held. In order to vote by way of a voting card as stated, such should be delivered to the place, at the dates and to the entities, as shall be determined in the notice of the meeting and/or in the voting card and as shall be published in an immediate report, such voting card being filled-in, duly signed and accompanied by all of the required documents attached thereto. A voting card in which a Debenture Holder has stated the manner of his vote which has reached the Trustee by the last date prescribed therefor, shall be deemed as presence at the meeting for the purpose of the existence of a legal quorum. A voting card received by the Trustee in respect of a certain matter which was not voted on at the Holders' meeting, shall be considered as abstaining from the vote at such meeting in respect of a resolution to hold an adjourned Holders' meeting according to the provisions of Section 16 hereof, and it shall be counted at the adjourned Holders' meeting that shall be held pursuant to the provisions of Section 13 or 16 of this Schedule.
29. The Trustee may, at its discretion and subject to any law, hold voting meetings in which votes shall be held by way of voting cards without convening the Holders, provided that the votes shall be held in respect of issues deliberated at Holders' meetings.

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Presence

30. A person or persons appointed by the Trustee, may be present but shall not be entitled to vote at meetings of Debenture Holders. At meetings of Debenture Holders called by the Trustee, the Company's representatives and any other person or persons permitted therefor by the Trustee, may be present, with no voting right. In the event that, pursuant to the Trustee's discretion, part of the meeting calls for a discussion without the presence of a certain person, including the Company's representatives, such person shall not participate in such part of the discussion.

Meeting's notice: Agenda

31. A notice of a meeting of Debenture Holders shall be published and delivered to the Company pursuant to the provisions of Chapter G1 and Sections 35H(1)(d) and (e) of the Securities Law and in accordance with the provisions of Section 26 of the Indenture, and shall include the agenda, the proposed resolutions and the arrangements pertaining to written votes.
32. The Trustee shall determine the agenda for a meeting of Debenture Holders and shall include therein issues in respect of which the convening of the Holders' meeting was required according to Section 2 hereof and any issue requested by a Holder as specified in Section 33 of this Schedule below. The Holders' meeting shall only adopt resolutions in respect of issues specified on the agenda. Notwithstanding the aforesaid, to the extent that regulations be promulgated by virtue of Section 35L8 of the Securities Law, the meeting may adopt resolutions that differ from the wording of the resolutions on the agenda, according to the provisions of the law.
33. One Debenture Holder or more, holding at least five percent (5%) of the balance of the nominal value of a series of Debentures, may request that the Trustee include an issue on the agenda of a Holders' meeting that shall be convened in the future, provided that such issue is fit to be discussed at such meeting, all subject to the provisions of the Securities Law and its regulations.

Additional Provisions

34. Nothing stated in Sections 2, 32 and 33 of this Schedule shall derogate from the Trustee's authority to convene a Holders' meeting, if it sees a need to consult therewith. The notice of such meeting shall not specify issues on its agenda and the date of its convening shall be at least one day after the date of the notice. No vote shall be held and no resolutions shall be adopted at such meeting and the provisions of the Securities Law shall apply thereto, other than the provisions specified in Section 35L26(b) of the Securities Law.
35. Where there is no practical possibility to convene a Holders' meeting or to hold it in the manner prescribed therefor by the Indenture or by the Securities Law, the Court may, at the request of the Company, a Debenture Holder entitled to vote at the meeting or the Trustee, order that a meeting be convened and held in a manner to be determined by the Court, and it is entitled to render supplementary instructions for such purpose to the extent deemed fit thereby.

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36. No resolution duly adopted at a meeting convened as set forth in this Schedule above shall be revoked, even if due to an error, notice thereof was not provided to all Debenture Holders, or if such notice was not received by all of the Debenture Holders. The foregoing in this Section shall apply if the meeting's notice (or the adjourned meeting's notice, as applicable) was issued on the MAGNA system.

Affiliated Holder: Determination of Conflicting Interest

37. In the event that a Holders' meeting was convened, the Trustee shall examine the existence of conflicts of interest of the Holders, be it an interest deriving from their holding of the Debentures or another interest thereof, as shall be determined by the Trustee ("**Another Interest**"). The Trustee may demand of a Debenture Holder participating in a Holders' meeting to inform it, including in writing, prior to the vote, of Another Interest it has and whether it is in a conflict of interests as aforesaid. The Trustee shall exclusively rely on the declarations delivered to it by the Holders as aforesaid and shall not hold an additional investigation or examination. A Holder that does not provide a written affirmation after having been requested to do so by the Trustee, shall be regarded as a one that provided a declaration of having a personal interest as stated, and the Trustee shall determine with respect to him that he is Holder with a conflicting interest.
38. In counting the votes at a vote held in a Holders' meeting, the Trustee shall not count the votes of Holders who failed to respond to the Trustee's demand as set forth in Section 37 above or of Holders in respect of whom the Trustee found that a conflict of interests exists as set forth in such Section ("**Holders of a Conflicting Interest**") and of Affiliated Holders. An Affiliated Holder shall notify the Trustee in writing prior to the convening of a meeting of the Debenture Holders that he is an Affiliated Holder.
39. Notwithstanding the foregoing, in the event that the total holdings of participants at the vote, who are not Holders of a Conflicting Interest, constituted less than five percent (5%) of the balance of the nominal value of the Debentures, the Trustee will count the votes of Holders of a Conflicting Interest in the tally of votes.
40. In the context of the votes held at all meetings of Debenture Holders, the Trustee shall be permitted, at its sole discretion, to determine that a certain resolution shall be subject to the approval of the required majority only out of votes of Holders who are not Affiliated Holders and are not Holders of a Conflicting Interest.
41. The Trustee shall examine whether a Holder is a Holder of a Conflicting Interest also considering such Holder's holdings in other securities of the Company and/or of securities of any other corporation that is relevant to the resolution brought to the approval of the meeting (as shall be specified in the voting card), according to the declaration of such Holder.

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42. The determination of the existence of a Conflicting Interest may also be made on the basis of a general test of conflict of interests to be applied by the Trustee. For such purpose, the Trustee may rely on a legal opinion that it shall receive (in accordance with and subject to the provisions of the Indenture in such context). In addition, for the avoidance of doubt it is clarified, that none of the definitions above shall derogate from the provisions of the law, case law and the binding directives of the Israel Securities Authority which pertain to the definition of debenture holders having a "conflicting interest", as shall apply at the date of the examination.
43. The Trustee shall examine the manner of appropriate treatment of the votes of Holders who sought to participate at the vote in accordance with all of the above, and in the event necessary, shall apply to the Court to seek instructions in respect thereof.
44. No separate meeting of those Holders classified as Holders of a Conflicting Interest shall be held, and the adoption of a resolution at a meeting of all of the Holders or of Holders of a Conflicting Interests shall not be required for the purpose of adopting a binding resolution.
45. It shall be clarified, that the examination of a Conflicting Interest as aforesaid, shall be performed separately in respect of each resolution on the agenda of the meeting, and separately in respect of each meeting. It shall be clarified further, that the declaration of a Holder as a Holder of a Conflicting Interest in a certain resolution or meeting, shall not, in itself, indicate a Conflicting Interest of such Holder in another resolution on the agenda of the meeting or of a Conflicting Interest of such Holder in other meetings.
46. For the purpose of this Schedule, an "**Affiliated Holder**" shall mean as defined term in Section 8.2 of the Indenture.

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**State of Israel
Ministry of Communications**

**General License to Cellcom Israel Ltd.
for the Provision of mobile radio telephone
services by the cellular method (cellular)**

Combined Version, as at March 1, 2017

General License for

Cellcom Israel Ltd.

Award of license

By the authority vested in me under the Telecommunications Law, 5742 – 1982 (hereinafter – the Law), the Wireless Telegraph Ordinance [New Version], 5732 – 1972 (hereinafter – the Ordinance), and my other powers pursuant to any law, I, the Minister of Communications, hereby grant a license to Cellcom Israel Ltd. (hereinafter – the Licensee) to establish, maintain and operate a mobile radio telephone system by the cellular method, and to provide thereby mobile radio telephone services to the Israeli public, as set forth in this License.

This License is granted for the period set forth in the license and is subject to its conditions as follows:

CHAPTER A: GENERAL

PART A: DEFINITIONS AND INTERPRETATION:

1. Definitions

1.1 In this License, the words and expressions below will have the meaning listed next to them, unless another meaning is evident from the written language or its context.

- "Type Approval"** - Approval given by the Minister pursuant to the Law and the Ordinance to a cellular end-equipment model.
- "Means of Control"** - In a corporation – any one of the following:
(1) the right to vote at a general meeting of a company or in an entity corresponding thereto in another corporation;
(2) the right to appoint a director or CEO;
(3) the right to participate in the profits of the corporation;
(4) the right to a share in the balance of the assets of the corporation after payment of its debts on liquidation.
- "Telecommunications"** - Broadcast, transfer or reception of marks, signals, written material, visual forms, sound or information, via wire, wireless, optical system or other electromagnetic systems;
- "Franchisee"^{A16}** - As defined in Section 6(12)(1) of the Law;
- "Cellular Radio Infrastructure License Holder"** - whoever receives the license for establishment, existence and operation of a radio infrastructure for mobile telephony communication;
- "Generation 2"** - A network which allows mostly the provision of call and message services, using basic mobile telephony communications of GSM or CDMA and all of their updates, such as GPRS, EDGE, etc.;
- "Generation 3"** - A network, which in addition to Generation 2 services, allows for the provision of data services at a medium pace (a few dozen megabits per second) using basic mobile telephony communications of UMTS and CDMA2000 and all of their updates, such as HSPA, HSPA+, etc.;
- "Generation 4"** - A network, which in addition to Generation 3 services, allows for the transfer of data at a high pace (approximately 100 megabits per second) using basic mobile telephony communications in accordance with the 3GPP TS 36.104 last release standard, for supplying all of the License Owner's services under his license, such as LTE technology;
- "Interested Party"** - Anyone holding, directly or indirectly, 5% of a certain type of the Means of Control;
- "Licensee"** - Anyone to whom the Minister granted, pursuant to the Law, a general or special license;^{A16}
- "General Licensee"^{A16}** - Anyone who has received a general license for implementing the Telecommunications operations and providing Telecommunications services;
- "Roaming Licensee"^{A60}** - The person who one Tender 12/2010 – Combined License for the Provision of Mobile Radio Telephone Services by the Cellular Method (Cellular) in Israel – Extension of Existing License and Grant of a New License.
- "Broadcasting Licensee"^{A16}** - As defined in the Law;

^{A16} Amendment No. 16

^{A16} Amendment No. 16

^{A16} Amendment No. 16

^{A60} Amendment No. 16

^{A16} Amendment No. 16

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- "Accessibility Fees"** - Payment for the use of another Telecommunications system, including for connection, transmission and collection;
- "Technical Requirements and Service Quality"** - Standards of availability and service quality, standards for Telecommunications facilities and instructions for installation, operation and maintenance, all according to the engineering plan as the Director will order from time to time relating to the services of the Licensee
- "Contract"**^{A43} - Contract between the Licensee and a Subscriber, for the provision of all or any of the services of the Licensee;
- the "Proposal"** - The Licensee's Proposal in the Tender;
- the "Bezeq Corp."** - Bezeq Israel Telecommunication Corp. Ltd.;
- "Bill" or "Telephone Bill"** - A bill which the license owner submits to the subscriber for services it provided to him or for services provided to the subscriber by another license owner or by a service provider;
- "Bill Period"** - A cyclical time period, whose length is particular, at the end of which a bill for payment is submitted to the subscriber for the services of the license owner and for the services of the service provider, which were provided to the subscriber during said period.
- the "Law"** - The Communications Law (Telecommunications and Broadcasts), 5742 – 1982; ^{A16}
- "Goods"** - As defined in Section 3 of the Interpretation Law, 5741-1981;

^{A43} Amendment No. 43 [Inception: This amendment shall come into force not later than March 15, 2007]

^{A16} Amendment No. 16

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- "Holding"**^{A16} - For the purpose of Means of Control – directly or indirectly, whether alone or in concert with others, including through another, including a trustee or agent, or through a right granted under an agreement, including an option for a Holding that does not derive from convertible securities, or in any other way;
- "Transfer"**^{A16} - For the purpose of the Means of Control, whether directly or indirectly, whether for consideration or without consideration, whether in perpetuity or for a period, all at once or in parts;
- "In Concert With Others"**^{A16} - Permanent collaboration and, with regard to an individual, permanent collaborators will be deemed – the individual, his Relative, and a corporation that one of them controls and, with regard to a corporation – the corporation, anyone controlling it and anyone who is controlled by one of them;
- "Security Forces"** - The Israel Defence Forces, the Israel Police, the General Security Service and the Mossad Institute for Intelligence and Special Operations;
- "Applicant"** - Someone who requests to enter into a contracting agreement or purchase agreement with the license owner;
- "Index"** - The Consumer Price Index published by the Central Bureau of Statistics from time to time, or any other index that may replace it;
- "Cellular Radio Center"** - A wireless facility functioning on the operating frequencies and used for creating a radio connection between cellular end-equipment units in the possession of the subscribers in its coverage area and the cellular switchboard;
- "Interface"** - The physical meeting between various functional Telecommunications units, including by optical or wireless means;^{A16}
- "Telecommunications Facility"** - A facility or device intended mainly for telecommunication purposes, including end-equipment;^{A16}
- "Generation 4 Tender"** - Tender No. 2014/021 – a combined license for the provision of mobile telephony communications by way of the cellular method in Israel: expansion of an existing license or granting a new license;
- "Tender No. 1/01"**^{A16} - A tender published by the Ministry on 4 Nissan 5761 (March 28, 2001), including the clarifications given by the Ministry in the course of the Tender, as a result of which this License was amended;
- the "Tender"** - Tender No. 10/93 published by the Ministry on November 11, 1993, including clarifications given by the Ministry in the course of the Tender, as a result of which this License is granted;
- the "Director"** - The Director General of the Ministry of Communications or anyone authorized by him for the purposes of this License, in whole or in part;
- "Subscriber"**^{A43} - Anyone who enters into an agreement with the Licensee for the purpose of receiving cellular services as an end user;
- "Dormant subscriber"**^{T48)} - A subscriber in respect of which all of the conditions set out below are fulfilled:
- (a) He did not receive or use cellular services during a minimum of one year, starting from January 1, 2008;
 - (b) He does not pay the Licensee any fixed payment;
 - (c) He is not bound with the Licensee by any plan that includes a commitment period.

^{A16} Amendment No. 16

^{A43} Amendment No. 43 [Inception: This amendment shall come into force not later than March 15, 2007]

^{T48)} Amendment No. 48 (Inception: This amendment will come into force on October 2, 2008).

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- "Business subscriber"**^{T47} - A subscriber who is any of the following:
- (a) A corporation, as defined in the Interpretation Law, 5741-1981;
 - (b) Government offices and auxiliary government bodies;
 - (c) A licensed dealer excluding an exempt dealer;
 - (d) An entity established by or pursuant to a law.
- "Split Business Subscriber"** - A user of end equipment, whose telephone account charge is split between him and a business subscriber or that he is charged with the telephone bill in its entirety.
- "Private Subscriber"**^{T52} - A subscriber who is not a Business Subscriber and who is not a Split Business Subscriber;
- "Post-Paid"** - Payment for services which was collected from the subscriber after the end of the Bill Period.
- "Pre-Paid"** - Payment for services which was collected from the subscriber before or upon the commencement of supply of the services.
- "International Telecommunications System"** - A system of Telecommunications facilities, connected or designated for connection to the Public Telecommunications Network through an International NEP, which is used or designated for use in the transfer of Telecommunications messages between an international switch situated in Israel and a Telecommunications Facility located abroad, including a satellite ground station and other Telecommunications facilities (hereinafter – the **System Components**) and including transmission facilities among the System Components;^{A16}

^{T47} Amendment No. 47.

^{T52} Amendment No. 52.

^{A16} Amendment No. 16

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"Mobile Radio Telephone System" (Cellular System)	-	A system of wireless facilities built by the cellular method and other installations, through which mobile radio telephone services are provided to the public, including a cellular coordinator, cellular radio centers and wireless or cable transmission arteries between cellular radio centers, a cellular radio center and a cellular coordinator, between Cellular coordinators, or between a cellular switchboard and a Public Telecommunications Network.
"NDO (National Domestic Operator)"	-	A General Licensee for the provision of landline domestic Telecommunications services
^{A16} "Cellular Operator"	-	A General Licensee for the provision of mobile radio telephone services ^{A16}
"Mobile Telephony Services (MTS) Operator in Another Network"	-	A license owner for the provision of MTS services, involving the use of the MTS system of an MTS operator, in whole or in part, and at the least the access network of the said MTS system.
"Another Cellular Operator"	-	A Cellular Operator that is not the Licensee.
"Switchboard"	-	A Telecommunications Facility in which are situated and operated switching and transmission means, enabling contact between various end-equipment units that are connected or linked thereto, and the transfer of Telecommunications messages between them, including control and monitoring facilities and other facilities that enable the provision of various services to Subscribers of the Licensee or to subscribers of another Licensee;
"The Ministry"	-	The Ministry of Communications
"Transit Switch"^{A16}	-	A Telecommunications Facility in which are situated and operated the means of switching, routing and transmission enabling contact between various switchboards that are connected or linked thereto and the transfer of Telecommunications messages between them, including control and monitoring facilities;
"Domestic Roaming"^{A60}	-	Expansion of the services of another cellular licensee (hereinafter – "cellular licensee") to the coverage areas of the Licensee by means of the Licensee's cellular system, as set forth in section 67E.
"Officer"^{A16}	-	Anyone acting as a director, CEO, chief business officer, deputy CEO, someone who fills such a position in a company even if the title is different, as well as any other manager who is directly subordinate to the CEO of the company;
"One-Time Transaction"	-	A transaction that is not an ongoing transaction.
"Ongoing Transaction"	-	A contracting agreement for the purchase of continuous and ongoing services of the license owner, including any amendment of the agreement or addendum thereto that does not constitute a new transaction, all whether the contracting agreement is for a fixed period or a non-fixed period.
"Appendices"^{A16}	-	The first addendum and the Appendices set forth in the second addendum to the License ^{A16}
"NEP (Network End-Point)"	-	An Interface to which is connected on one side a Public Telecommunications Network and on the other side, end-user equipment, a private network, a mobile telephone network or other public network, as applicable;
"International NEP"	-	A connections device to which are linked a Public Telecommunications Network on one side and an International Telecommunications System on the other;
"Telecommunications operation" the "Ordinance"	-	The operation, installation, construction or maintenance of a Telecommunications Facility, all for the purpose of Telecommunications;
"End-User Equipment"	-	The Wireless Telegraph Ordinance [New Version], 5732 – 1972;
		Telecommunications equipment, which is connected or is designated for connection to a public Telecommunications network through an NEP or through a private network, including a telephone, modem, facsimile or private switchboard;

^{A16} Amendment No. 16
^{A16} Amendment No. 16
^{A16} Amendment No. 16
^{A60} Amendment No. 60
^{A16} Amendment No. 16
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- "Cellular End-User Equipment"** - Portable or movable Telecommunications equipment, connected or designated for connection to a Cellular System by means of a cellular radio center.
- "Interconnection"^{A16}** - Connection between a Public Telecommunications Network of one Licensee to a Public Telecommunications Network of another Licensee, physically or logically, that facilitates the transfer of Telecommunications messages between Subscribers of the Licensees or the provision of services by one Licensee to the subscribers of the other Licensee;
- "Relative"** - Spouse, parent, son, daughter, brother, sister or their spouses;
- the "License"** - This License, with all its Appendices and any other document or condition stipulated in the License that will constitute an integral part of the License or its conditions;
- the "Network"^{A16}** - The Cellular System of the Licensee;
- the "Minister"** - The Minister of Communications, including anyone to whom he has delegated his authority with regard to this License, in whole or in part;
- "Public Telecommunications Network"** - A system of Telecommunications facilities, used or designated for the provision of Telecommunications services to the general public throughout Israel or at least in the area of service, including Coordinators or Transit Switches, transmission equipment and an access Network, including a Cellular System and an international Telecommunications system, except for a private network, End-Equipment and Cellular End-Equipment;
- "Public Telecommunications Landline Network"** - A domestic Public Telecommunications Network, except for a Cellular System and an international Telecommunications network;
- "Access Network"^{A16}** - Components of a Public Telecommunications Network, which are used for connection between Coordinators and an NEP by means of a landline infrastructure, wireless infrastructure or a combination of the two;
- "Bezeq Network"** - The Public Telecommunications Network used by Bezeq for provision of its services under the general license granted to it and the other Telecommunications services provided under the Law, whether by Bezeq or by any other person;
- "Use"^{A16}** - Access to a Telecommunications Facility of the Licensee, including to the public Telecommunications network or its Access Network, in whole or in part, and the possibility of using them for the purpose of conducting Telecommunications operations and providing Telecommunications services by means thereof, including the installation of a Telecommunications Facility of another Licensee in a Telecommunications Facility or courtyards of the Licensee
- "Telecommunications Service"** - The performance of Telecommunications operations for others;
- "Basic Telephone Service"** - Two-way switched or routed transfer, including via modem, of speech or of speech-like Telecommunications messages, for example, facsimile signals;
- "Telephony Service"^{A16}** - Basic telephone service and services related to this service;

^{A16} Amendment No. 16

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"International Telephone Service (ITMS)"	-	A telephone service by means of the international system of a Licensee for the provision of international services;
"International Roaming Service" ^{A16 A66}	-	A cellular service provided abroad and in the areas of civilian control of the Palestinian Council via the Cellular System of a foreign Cellular operator (hereinafter – Foreign Operator), whereby the Subscriber pays the Licensee for the service; and, similarly, a cellular service provided in Israel via the Cellular System of the Licensee, whereby the Licensee provides service to a Foreign Operator for the subscribers of that operator; in this regard, the "Palestinian Council" – as defined in the Law for Implementation of the Interim Agreement Regarding the West Bank and Gaza Strip (Jurisdictional Powers and Other Provisions) (Legislative Amendments), 5756 – 1998 [sic];
"Related Service"	-	A service set forth in the first addendum to the License, provided on the basis of the Basic Telephone Service and which, by its nature, can only be provided by the supplier of the basic service;
"Value Added Service" ^{A16}	-	A service provided on the basis of the Basic Telephone Service, which, by its nature, can be provided by another, including another Licensee that is not the supplier of the basic service; with regard to the services of the Licensee, a service as stated, which is set forth in the first addendum to the License;
"infrastructure Service"	-	An Interconnection, or possibility of Use given to another Licensee, to a Franchisee or to a broadcast Licensee; ^{A16}
"Domestic Telecommunications Landline Service" ^{A16}	-	Infrastructure, transmissions, communication of data and landline telephony;
"Licensee Services"	-	Cellular services, Telecommunications Services and other services which the Licensee is entitled to provide pursuant to this License, to its Subscribers, to other Licensees, to broadcast licensees, to Franchisees and to the Security Forces; ^{A16}
"Cellular Services"	-	Telecommunications services provided by means of the Cellular System;
"Control"	-	The ability to direct a corporation's activity, directly or indirectly, including ability deriving from the articles of incorporation, by virtue of an agreement, either written or oral, by virtue of a Holding in the Means of Control in another corporation - or from any other source, except for ability deriving solely from fulfilling the position of director or other position in the corporation;
"the Minister"	-	The Minister of Communications, including anyone to whom he has delegated his authority with regard to this License, in whole or in part;
"Engineering Plan"	-	An engineering plan submitted by the Licensee in the Tender, including any change introduced therein with the approval of the Director and attached to the license as Appendix B;
"Numbering Plan" ^{A16}	-	As defined in Section 5A(B) of the Law;
"Radio Infrastructure"	-	Radio centers by way of the cellular method, monitoring units thereof, if any, and transmission connecting them to the core of the public Bezeq network of the License Owner

^{A16} Amendment No. 16

^{A66} Amendment No. 66

^{A16} Amendment No. 16

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1.2 Other words and expressions in the License, insofar as they are not defined in Clause 1.1, will have the meaning they have in the Law, in the Ordinance, in the regulations enacted thereunder, in the Interpretation Law, 5741 – 1981, or as set forth in the relevant places in the License, unless another meaning is implied by the written language or its context.

2. **Clause headings**

The headings of the clauses in this License are provided solely for the convenience of the reader, and should not be used for interpretation or explanation of the content of any of the conditions of the License.

3. **Blue pencil principle**

A cancellation or determination regarding the non-validity of a condition of this License or part of a condition will apply only with regard to that condition or part, as applicable, and will not serve, per se, to derogate from the binding validity of the License or any other condition therein.

PART B – LEGAL PROVISIONS AND ADMINISTRATIVE PROVISIONS

4. Upholding laws and provisions

4.1 In everything pertaining to the setup, existence, operation, and maintenance of the Cellular System and the provision of Cellular Services thereby, the Licensee will act in accordance with the provisions of any law and, without derogating from the aforesaid generality, will ensure compliance with the following:

- (1) the provisions of the Telecommunication Law and the regulations promulgated thereunder;
- (2) the provisions of the Wireless Telegraph Ordinance and the regulations promulgated thereunder;
- (3) administrative provisions;
- (4) international Telecommunications and radio treaties to which Israel is a party;
- (5) any other law or treaty that will apply to Telecommunications and radio, even if they go into effect after the License is granted.

4.2 The Licensee will act pursuant to laws and provisions as stated in Clause 4.1 as these will be in force from time to time during the license period, including the remedies for the breach thereof, and they will be deemed an integral part of the License conditions.

5. Permit obligation pursuant to any other law

5.1 The granting of this License will not exempt the Licensee from the obligation to obtain, with regard to execution of the License, any license, permit, approval, or consent pursuant to any other law.

6. Contradiction in the License provisions

In the event of an apparent contradiction in the License provisions, the Minister will determine the interpretation of the provisions or how to settle the contradiction between them and after the Licensee has been given a fair opportunity to voice its claims ^{A2}.

^{A2} Amendment No. 2

CHAPTER B: THE LICENSE – SCOPE, VALIDITY AND CANCELLATION

PART A – SCOPE AND PERIOD OF THE LICENSE

7. Scope of the License

- 7.1 Pursuant to this License and subject to all the provisions and conditions hereof, the Licensee is entitled to set up, implement, maintain and operate a Cellular System and, through it, to provide cellular Services to the Israeli public; without derogating from the aforementioned generality, the Licensee is entitled to do the following:
- (1) to set up, implement, maintain and operate cellular radio centers and to connect them to cellular switchboards, and to connect between cellular switchboards, by means of cable and wireless transmission channels;
 - (2) To connect the mobile phone system to another public communication network in Israel;
 - (3) To engage with the subscribers for the purpose of provision of mobile phone services;
 - (4) To supply mobile phone terminal equipment to subscribers;
 - (5) To provide its subscribers with mobile phone services as specified in the first addendum to the license;
 - (6) To provide its subscribers with services for which it has received approval in accordance with Section 67C of the license. ^{A66}
- 7.2 The Licensee will not be entitled to provide any cellular service or other Telecommunications Service that is not explicitly permitted within the context of this License.

8. Absence of exclusivity^{A16}

- 8.1 The Licensee will not have any exclusivity in the provision of its services.
- 8.2 The Minister is entitled, at any time, to grant a license to additional operators for the provision of cellular Services.
- 8.3 Should the Minister publish a tender for the provision of cellular services, the Licensee will be entitled to submit its bid in the tender, however, the Minister will be entitled to determine as part of the conditions of such a tender that if the Licensee wins the tender, the receipt of a license will be contingent on the fact that the Licensee transfer its cellular System to another as instructed by the Minister and under conditions determined thereby, and it will cease to provide cellular Services by means thereof.

^{A66} Amendment No. 66

^{A16} Amendment No. 16

9. The License period

- 9.1 This License is valid for a period of 10 years, commencing on the date of the granting of the License (hereinafter – the License Period).
- 9.2 The License Period may be extended by additional six years in accordance with that stated in Clause 10 (hereinafter – the Additional Period).
- 9.3 This License may be renewed for one or more Additional Periods of six years, in accordance with that stated in Clause 11.
- 9.4 During the License Period and the Additional Period or on renewal of the License, the License will be subject to the authority of the Minister pursuant to Clauses 13 to 15 with regard to change, restriction, suspension or cancellation of the License.
- 9.5^{A15} Notwithstanding the aforesaid ^{A16}, in the context of expansion of the License, as a result of the Licensee winning Tender No. 1/01, this License will be valid for a period of twenty (20) years, commencing on 19 Shevat 5762 (February 1, 2002).

10. Extension of the License Period

- 10.1 The Minister is entitled, at the request of the Licensee, to extend the License Period for additional six years, if, after he has examined the following:
- (A) The Licensee has complied with the provisions of the Law, the Ordinance, the regulations thereunder and the provisions of the License;
 - (B) The Licensee has continually acted to improve the scope, availability and quality of the cellular Services and to update the technology of the cellular System and its activities did not include an act or omission that would impair or restrict competition in the cellular sector;
 - (C) The Licensee is capable of continuing to provide cellular Services at a high level and that it is able to make the investments required for the technological updating of the cellular System and for improving the scope, availability and quality of the cellular Services.
- 10.2 The Licensee must submit its request for an extension of the License Period during the forty-five days prior to the period of eighteen months preceding the end of the License Period.
- 10.3 The Licensee must attach the following to its request:
- (A) A report summarizing the annual statements that the Licensee has submitted pursuant to this License between the date of commencement of the License and the date of submission of its request;
 - (B) Comparison of the data in the report for each year with the data for the preceding year and explanations of unusual changes in the data;
 - (C) Review of the means, actions and investments taken or made by the Licensee to improve the quality, scope and availability of the Cellular Services and to develop and update the Cellular System technology.
- 10.4 The summary report pursuant to Clause 10.3 must contain up-to-date and precise details and be prepared in the form of an affidavit.

^{A15} Amendment No. 15

^{A16} Amendment No. 16

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

- 10.5 For the purpose of examining the Licensee's request to extend the License Period, the Minister is entitled to require the Licensee to furnish, during the period and in the manner that he will determine, any information or document and, without derogating from the generality of that stated, the Minister is entitled -
- (A) To require the Licensee to attach any document to the summary report for the purpose of verifying the details therein, to complete the report or to furnish any additional detail that is not included therein;
- (B) To summon the Licensee to appear before him to respond to questions or to present documents that are in its possession or under its control, relating to the data in the report;
- (C) To require the Licensee to submit to him an Engineering Plan outlining its plans for the technological update of the Cellular System during the Additional Period;
- 10.6 The Licensee must fulfil every requirement or summons as stated in Clause 10.5; if the Licensee is required to appear before the Minister, the chairman of the board of directors of the company holding the License or the CEO of the company or anyone authorized to do so in writing, will appear;
- 10.7 If the Licensee fails at least twice to respond to the request or summons as stated in Clause 10.5, the Minister is entitled to reject its request to extend the validity of the License.
- 10.8 The Minister will inform the Licensee of his decision regarding the request for extending the validity of the License no later than a year before the end of the License Period.
- 10.9 The Additional Period will be subject to the terms of this License, including any change therein.
- 10.10 The provisions of Clause 100 regarding confidentiality will apply, *mutatis mutandis*, to data furnished by the Licensee to the Minister or anyone acting on his behalf, pursuant to the provisions of Clause 10.
- 11. Renewal of the License**
- 11.1 At the end of the License Period or the Additional Period, the Minister is entitled, at the request of the Licensee, to renew the License for one or more Additional Periods of six years, as will be determined.
- 11.2 The Licensee will submit its request for the renewal of the License during the forty-five days prior to the eighteen months preceding of the end of the License Period or the Additional Period.
- 11.3 The Minister will inform the Licensee in writing, within 30 days of the date of receiving its request for renewal of the License, whether he intends to take the measures and institute the proceedings required to renew the License, or a tender will be conducted for the services under this License.

12. Termination of the License Period

- 12.1 If the License Period pursuant to Clause 9.5^{A16} or the Additional Period pursuant to Clause 10.1 or the License Period after its renewal pursuant to Clause 11.1 ends and the License is not extended or not renewed, the Minister is entitled to instruct the Licensee to continue to operate the Cellular System for a period to be determined (hereinafter - the Period for Terminating the Service) until a license is duly granted to another for the provision of services pursuant to this License (hereinafter – Alternate Licensee), and the procedures for transferring the system thereunder are completed, or until a license is duly granted to another for alternate services. In any case, the Period for Terminating the Service will not exceed two years from the date on which the License expires.
- 12.2 During the Period for Terminating the Service and no later than ten months from the date on which a license is granted to an Alternate Licensee, the Licensee and the Alternate Licensee will negotiate for the purpose of purchasing the Cellular system at its economic value and assigning the rights and obligations of Subscribers to the Alternate Licensee; if said Licensees do not reach an agreement within said ten months, the price will be determined by an arbitrator, whose decision will be final, to be appointed by the Chairman of the Institute of Certified Public Accountants.

^{A16} Amendment No. 16

PART B – CHANGE IN CONDITIONS AND CANCELLATION OF THE LICENSE

13. Change in the License conditions

13.1 The Minister is entitled to change, add to or subtract from the License conditions if he is convinced that one of the following exists:

- (A) A change has occurred in the extent of the License applicant's suitability to perform the actions and services that are the subject of the License;
- (B) Subject to that stated in Clause 8, a change is required in the License to ensure competition in the telecommunications area;
- (C) A change is required in the License to ensure the level of services provided thereunder;
- (D) Changes that have occurred in telecommunications technology require a change in the license;

13.2 The Minister is entitled to change, increase or reduce the rates for services, if he is convinced that a change has occurred in one or more of the components of the costs, which represent a basis for calculating the rates.

13.3 The Minister will act pursuant to his authority as stated in Clauses 13.1 and 13.2 after the Licensee has been given a reasonable opportunity to voice its claims.

14. Cancellation of the License

14.1 The Minister is entitled to cancel the License before the end of its period, if one or more of the causes set forth in Section 6 to the Law exist, or in one of the following cases:

- (A) The Licensee did not disclose to the tenders committee information that must be disclosed or it furnished inaccurate information;
- (B)^{A2} If the Licensee refuses to furnish the Minister or anyone acting on his behalf with information in its possession that must be disclosed and which it was obligated to disclose by virtue of the provisions of this license or pursuant to law, or the Licensee furnished the Minister or someone acting on his behalf with false information;
- (C) The Licensee did not comply with the provision of the Law, the Ordinance or the regulations thereunder;
- (D) The Licensee committed a material breach of the License conditions and, without derogating from the generality of that stated, including the following:
 - (1) The Licensee is demanding for its services payments that are higher than the maximum rates prescribed in this License or pursuant thereto, or pursuant to any law;
 - (2) The Licensee is not complying with the coverage or quality requirements prescribed in this license;
 - (3) The Licensee did not comply with the provisions of this license with regard to the operation of digital technology in the cellular System;
- (E) The Licensee did not commence provision of the services pursuant to that set forth in the License or unlawfully discontinued, restricted or delayed one of the services;

^{A2} Amendment No. 2

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

- (F) One or more of the qualities that rendered the Licensee suitable to participate in the tender for cellular services, or to be a Licensee, has ceased to exist, including:
- (1) The Licensee has ceased to be a company registered in Israel;
 - (2) Cancelled;
 - (3) A majority of the directors in the Licensee company are not citizens and residents of Israel;
 - (4) The manager or a director of the Licensee company was convicted of an infamous crime and continues to serve in his position;
 - (5) The joint equity, including surpluses, of all of the shareholders in the Licensee company, together with the equity of the Licensee, has declined to under US \$200 million; in this matter, a shareholder holding less than 10% of the right to the company's earnings will not be taken into account.
 - (6) Before 5 years have elapsed from the date of granting the License, the share of the cellular operator has fallen to less than 25% of the voting rights in the general meeting or of the right to appoint a director or CEO in the Licensee company;
 - (7) Subject to that stated in paragraph (8), the Licensee, or an officer in the Licensee company or anyone who holds more than 5% of the Means of Control in the Licensee company, holds, directly or indirectly, more than one per cent (5%) of the Means of Control in Bezeq^{A2}, Another cellular Operator, or one of them acts as an Officer in a competing corporation.
 - (8) If one of the following occurs in an Interested Party in the Licensee company, which is a mutual fund, insurance company, investment company or pension fund;
 - it holds, directly or indirectly, more than 5% of any Means of Control in a competing corporation, without receiving a permit therefor from the Minister;
 - it holds, directly or indirectly, more than 5% of any Means of Control in a competing company pursuant to a permit from the Minister and, additionally, it is a controlling shareholder and exercises actual Control in a competing corporation or it has a representative or appointee on its behalf among the Officers in the competing corporation, unless it is required to do so under law;
 - it holds, directly or indirectly, more than 10% of any Means of Control in a competing corporation, even though it has received permission to hold up to 10% of said Means of Control;
- (G) Void^{A2}
- (H) If an act or omission in the Licensee's operations impaired or restricted competition in the cellular sector;

^{A2} Amendment No. 2

^{A2} Amendment No. 2

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

- (I) A receiver or temporary liquidator was appointed to the Licensee company and an order was given for its liquidation or it decided on voluntary liquidation;
- (J) Void^{A2}
- (K) The Licensee requested cancellation of the License;

14.1.1^{A2} For the purposes of sub-clause 14.1(E^{A2}), the restriction of service for technological reasons, effected after the Director was provided with prior written notification of the reasons and approved by the Director, will not be considered deemed an improper unlawful cessation, restriction or delay of service.

14.2 If the Minister is convinced that, in the circumstances, the cause of invalidity does not necessitate cancellation of the License, the Minister will grant the Licensee a fair opportunity to rectify the act or omission constituting a cause for cancellation.

14.3 The Minister will notify the Licensee in advance of his intention to cancel the license, will state in the notice the cause in question, and will allow the Licensee to voice its claims relating to the cause for cancellation, either in writing or orally, according to the circumstances, within the period set forth in the notice.

14.4 The Minister is entitled to summon the Licensee to appear before him and may demand that it respond to questions, present documents or furnish him with whatever information and documents are required for the purposes of clarifying the cause for cancellation.

14.5 If the Licensee is required or summoned as stated, it must respond to the requirement or summons on the date set forth therein.

14.6 If the Licensee fails to respond, at least twice, to the Minister's demand or summons within the period stipulated by the Minister in his demand or summons, the Minister is entitled to cancel the License in a notice that will be sent to the Licensee (hereinafter - Cancellation Notice).

14.7 In the Cancellation Notice, the Minister will determine the date on which the cancellation of the License will take effect and he is entitled to instruct the Licensee to continue the provision of services pursuant to this License until a license is granted to another or until the appointment of a trustee or until a receiver is duly appointed for the purpose of managing and operating the cellular System – as applicable.

14.8 The Licensee will continue to provide services until the end of the period stipulated by the Minister in his notice and will comply with the provisions of this License and any instruction given by the Minister in this matter.

15. Other remedies

In addition to his authority to cancel the License as stated in Clause 14, the Minister is entitled, if the causes outlined in Clause 14.1 occur, to restrict or suspend the License or to change its conditions or to foreclose on the guarantee given by the Licensee to secure fulfilment of the conditions of the License, in whole or in part; the procedures set forth for cancellation of the License will apply, *mutatis mutandis*, to the restriction or suspension of the License or forfeiture of the guarantee.

^{A2} Amendment No. 2

^{A2} Amendment No. 2

^{A2} Section 3 in the original version of Amendment No. 2 contained a typographical error, in which 14.1(D) was written instead of 14.1(E).

CHAPTER C: OWNERSHIP, ASSETS AND MEANS OF CONTROL

PART A – RESTRICTIONS ON TRANSFER OF THE LICENSE AND ITS ASSETS

16. Void.^{A66}

17. Ownership of the Cellular System

17.1 The Licensee will be the owner of the Cellular System.

17.2 Notwithstanding Clause 17.1, the License Holder may make use of:

(a) physical or wireless transmission lines of another license owner;

(b) the radio infrastructure, that is functioning and operating by way of a cellular radio infrastructure License Holder, in the framework of a usage agreement, as defined in Clause 19.3C, and after receiving the manager's agreement in advance and in writing, and in accordance with the terms determined by the Director.

18. Restrictions on transfer of the License assets

18.1 The Licensee may not sell, lease or pledge any of the assets used in performance of the License (hereinafter – the License Assets) with the Minister's prior consent and in accordance with the conditions determined by him.

18.2 Without derogating from the generality of that stated in Clauses 18.1, the Minister will give his consent for the granting of rights in the License Assets to a third party, if he is convinced to his satisfaction that the Licensee has promised that, in any event, the exercise of the rights by a third party will not cause any impairment in the provision of the services pursuant to this License, as long as the Licensee is obligated to provide these services pursuant to the provisions of this License.

18.3^{A2} Notwithstanding that stated in Clause 18.1, the Licensee is entitled to encumber one of the License Assets in favour of a bank duly operating in Israel, for the purpose of receiving bank credit, provided that it has furnished notice of the encumbrance that it intends to create, whereby the encumbrance agreement includes a clause ensuring that that, in any event, the exercise of the rights by the banking corporation will not cause any impairment in the provision of the services pursuant to this license. For the purposes of this clause – "Banking Corporation" is as defined in the Banking Law (Licensing), 5741 – 1981, except for a "Foreign Corporation," as defined in the same law.

18.4^{A2} The provisions of Clause 18.1 will not apply to the sale of equipment items during an upgrade, including the sale of equipment, as stated, on a "trade-in" basis.

18.4A For purposes of sale, lease, mortgage or transfer of the license assets to the cellular radio infrastructure license holder, whom the License Holder is his client, the provisions of this Clause shall not apply.

^{A66} Amendment No. 66

^{A16} Amendment No. 16

^{A2} Amendment No. 2

^{A2} Amendment No. 2

19. Engagement with another

- 19.1 If the Licensee wishes to provide one of the services pursuant to this license, in whole or in part, through another on its behalf, it must apply to the Director for his approval thereof; the Licensee must attach the Contract^{A43} to its application. The provisions of this clause will not apply for the purposes of the engagement between the Licensee and a marketer of Cellular End-Equipment or anyone acting on behalf of the Licensee for the purpose of marketing its services.^{A2}
- 19.2 The Director is entitled to approve or reject the application, or to condition his approval on terms that must be fulfilled, including amendment of the agreement; the Director will consider, *inter alia*, to what extent the terms of the engagement with the other guarantee compliance with the conditions of this License and the obligations of the Licensee hereunder. The Director will not approve an engagement with another that contradicts the obligations of the Licensee pursuant to this License.
- 19.3 Nothing in the engagement with another will derogate from the obligations and of the Licensee and its responsibility for performing any of the services pursuant to this License, in whole or in part, pursuant to the provisions of this License, nor will it serve to derogate from the powers of the Minister, the Director or anyone acting on their behalf.

Part A1 – Mutual relations with a cellular radio infrastructure License Holder

19A Definitions

19.1A In this Section –

"Confidential Commercial Information" - data regarding the License Holder that is not public, and that relates to one of the following:

- (1) Amount and volume of Bezeq messages transferred through the network, the kinds thereof and their destinations;
- (2) Number of subscribers, their classification and characteristics;
- (3) Network structure, its layout and the technology according to which it operates;
- (4) Plans for the expansion of the network, changes therein and operation of new services therewith;
- (5) Marketing or other technological plans or activities, the information regarding them was transferred to the License Holder by the mobile telephony communications license owner, or other business activity, the information regarding which was classified by the mobile telephony communications license owner as confidential commercial information;
- (6) Any other information which cannot be legally easily discovered by others, whose confidentiality grants its owners a business advantage over its competitors.

"Passive Component" – the passive elements in the cellular radio center's website, including pole, structure, electricity and air conditioning;

"Active cooperation of an antenna" – passive cooperation and in addition, cooperation of the antenna or cable feed to the antenna;

"Active cooperation of a frequency" (MOCN^a) – active cooperation of an antenna, including sharing of radio equipment and frequency that were allotted for use of the mobile telephony communications license owner;

^a Multi Operator Core Network

"Passive cooperation" – Whole or partial cooperation of a Passive Component in a significant number of cellular radio center's websites between two or more of the mobile telephony communications license owners;

19B. Cooperation with another mobile telephony communications license owner

19.1B The License Owner may contract with another mobile telephony communications license owner (hereinafter in this section: "**Other License Owner**") for the purpose of cooperation ("**Cooperation Agreement**") in any one of the following options only:

- (a) Passive Cooperation Agreement;
- (b) Active Cooperation of an Antenna Agreement;
- (c) Active Cooperation of a Frequency Agreement (MOCN);

19.2B Without derogation from the aforementioned in Clause 19.3B:

(a) The License Owner may contract with other telephony communications license owners in various cooperation agreements in each of the Generation 2, Generation 3 or Generation 4 networks. Despite the aforementioned:

- (1) Active Cooperation of a Frequency (MOCN) shall not be approved between two operators.
- (2) Active Cooperation of a Frequency (MOCN) in Generation 2 or 3 shall be approved only if both cooperating license owners were allotted Generation 4 frequencies and if the cooperating license owner who is not an operator has an Active Cooperation of a Frequency (MOCN) in Generation 4.

For the purpose of this sub-clause, "**Operator**" – a license owner who has completely laid out access network in Generation 3: Pelephone Communications Ltd., Cellcom Israel Ltd., Partner Communications Ltd.;

(b) Cancelled.

19.3B If the License Owner and the Other Owner reach a cooperation agreement of the types specified in Clause 19.1B, the License Owner shall submit a written request to the Manager no later than thirty days from the date of signature of the Cooperation Agreement (hereinafter in this clause – the "**Request**"), and shall request his approval of the Cooperation Agreement, and the Request shall include, at least, all of the following:

- (a) Details of the License Owner and the Other License Owner;
- (b) Type of Cooperation Agreement as stated in Clause 19.1B;
- (c) Executive summary of the main points of the Cooperation Agreement;
- (d) A copy of the Agreement with all of its attachments and appendices, together with an affidavit of an officer of the License Owner that except for these documents, no agreement exists, in writing or orally, in connection with the Agreement;
- (e) An opinion according to which the Agreement meets the most recent "Broadband Access Cooperation of the License Owner for the Provision of Mobile Telephony Communications" policy and the terms of Section A1. The opinion shall include an analysis of the influence of the Cooperation Agreement on the competition in the Bezeq and broadcasting area.
- (f) The date scheduled for the commencement of the implementation of the Agreement and its expiration;

19.4B The manager may approve the Request, deny it or condition its approval, including amending the Agreement.

19.5B The License Owner may commence the implementation of the Cooperation Agreement only after the manager approved the Request of the License Owner and the Other License Owner in writing.

19C **Cooperation Agreement and Use Agreement**

19.1C If the License Owner files a request for an active cooperation of a frequency agreement (MOCN), the manager shall consider the request, taking into account, *inter alia*, the existing competition level of mobile telephony communication services and the potential to the harm in competition, the existing and expected frequency inventories and the efficiency of use of the frequencies, the survivability and the redundancy of the networks from a national standpoint and ensuring the Bezeq service level over time.

19.2C The active cooperation of a frequency agreement (MOCN) shall include the following terms:

- (a) Cooperating license owners shall establish a joint corporation, and shall have equal control thereof. The joint corporation shall be required to obtain a special cellular radio infrastructure license;
- (b) The following provisions in regards to the Passive Component and the radio centers included in the joint access network shall apply to each one of the cooperating license owners during the entire term of the Cooperation Agreement:
 - (1) in the cellular radio centers – all cooperating license owners shall hold equally;
 - (2) in the passive component – each of the cooperating license holders shall have the right to make effective use of all passive components in the access network. In this regard – **"Right to make effective use"** – indefeasible right to use, during the relevant license period, the Passive Component, resulting from ownership or other source, which shall allow its owners to perform all actions connected to the establishment, existence and operation of cellular radio centers by way of or on the Passive Components.
- (c) The cooperation agreement expiration mechanism, which ensures the ability of each of the cooperating license owners to continue providing mobile telephony communication services to its subscribers after said expiration, in accordance with the provisions of its license. The framework of said expiration mechanism shall include provisions which shall arrange for the continued existence of the right to make effective use of the Passive Components in case of termination of the Cooperation Agreement in accordance with the provisions of sub-clause (2) and the mutual duty to allow for passive cooperation even after the termination.

19.3C Without derogating from the aforementioned in Clause 19.2C, the License Owner, the Other License Owner and the special cellular radio infrastructure license owner shall contract in an agreement between them, which grants the special cellular radio infrastructure license owner an indefeasible right of use (IRU) in the joint access network components, which are not owned by the special cellular radio infrastructure license owner, which specifies the method of use that shall be made with the joint network (hereinafter: the **"Usage Agreement"**).

In this regard, the indefeasible right of use shall be provided for a period not to exceed 10 years, and shall refer to the relevant access network components for a generation which was agreed upon in the Cooperation Agreement.

19.4C any change in the Usage Agreement or in the Cooperation Agreement shall be presented to the manager for approval no later than ten days from the date of signing the change; the License Owner shall forward to the manager, upon request, a copy of the Usage Agreement or any change therein.

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

- 19.5C The Cooperation Agreement or Usage Agreement (hereinafter in this Clause – the "**Agreement**") shall not limit, directly or indirectly, the License Owner and the Other License Owner from reaching an agreement with an additional license owner or a mobile telephony communications license owner on another network or from signing another agreement with them, or from causing discrimination in regards to the terms of use of the cellular radio infrastructure.
- 19.6C if the License Owner or the Other License Owner requested to make use of the radio infrastructure of the special cellular radio infrastructure license owner, it shall contact the license owners who are parties to the agreement in order to formulate a cooperation agreement, and shall act as stated in Clause 19B.
- 19.7C Nothing in the contracting with the special cellular radio infrastructure license owner may derogate from its duties as a license order and from its responsibilities to supply to its customers any service of the services under this license, in whole or in part, under the provisions of this license.
- 19.8C If the parties do not reach an agreement, each party may contact the Ministry in order to resolve the disputes between them in accordance with Section 5 of the Law.
- 19D. **Obligation for Structural Separation**
- 19.1D The License Owner shall maintain structural separation between it and the special cellular radio infrastructure license owner, as specified below:
- (a) Complete separation between its management and the management of the special cellular radio infrastructure license owner; in this regard – "**Management**", with the exception of an officer who is not a Board member of the License Owner, who is also a Board member of the special cellular radio infrastructure license owner.
 - (b) Complete separation between its assets and the assets of the special cellular radio infrastructure license owner, with the exception of the radio infrastructure of the License Owner;
 - (c) The License Owner shall not employ the employees of the special cellular radio infrastructure license owner, and the special cellular radio infrastructure license owner shall not employ employees of the License Owner;
 - (d) The License Owner shall not employ anyone who was a Management employee of the special cellular radio infrastructure license owner for one year after the termination of his employment, without the approval of the manager;
 - (e) The License Owner shall neither receive nor transfer to the special cellular radio infrastructure license owner Confidential Commercial Information that is not required for the provision of the special cellular radio infrastructure license owner's services to the License Owner.
- 19.2D Regarding confidentiality of commercial information, the License Owner shall do as follows:
- (a) The License Owner shall refrain from transferring Confidential Commercial Information to the special cellular radio infrastructure license owner, except for information required for the provision of the services of the special cellular radio infrastructure license owner to the License Owner;
 - (b) The License Owner shall refrain from transferring Confidential Commercial Information to the Other License Owner holding the same special cellular radio infrastructure license owner or receives services therefrom;
 - (c) The License Owner shall determine procedures and rules for maintaining Confidentiality of Commercial Information, and for the prevention of its transfer as stated in sub-clauses (a) and (b). The procedures shall determine, inter alia, limitations regarding the distribution of the Confidential Commercial Information to the License Owner and the special cellular radio infrastructure license owner, and the access to Confidential Commercial Information by employees who are not supposed to handle it in the framework of their positions.

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

19.3D If the Minister notices that there is a real concern to damage to competition in the Bezeq area or to the public's interest, he may instruct that the provisions of this chapter, in whole or in part, shall apply to an affiliated company to the License Owner that has a license under the Communications Law.

19.4D If the Minister notices that in a certain incident, circumstances existed which permitted it, and after he was convinced that there would be no damage to competition in the Bezeq area or to the broadcasts or to the public's benefit he may, according to a written request from the License Owner, permit by way of a written approval, reservations to the obligation for structural separation set forth in this section or according thereto, and he may determine conditions for it.

19E. Application of shared frequencies by means of the Joint Corporation and in accordance with the Cooperation Agreement”:

(1) In this section:

“**Cooperation Agreement**” – A Cooperation Agreement for the Generation 4 Network and on between Cellcom Israel Ltd. (hereinafter: “**Cellcom**”), Electra Consumer Products (1970) Ltd. (hereinafter: “**Electra**”) and Marathon 018 xPhone Ltd. (hereinafter: “**xPhone**”) of February 22, 2017, which was authorized on March 21, 2017 (hereinafter: “**the Generation 4 Cooperation Agreement**”), and in addition a Cooperation and Usage Agreement of the Generation 3 Network between Cellcom and Electra of January 2, 2017, which was authorized on March 16, 2017 (hereinafter: “**the Generation 3 Cooperation Agreement**”);

“**Joint Network**” – A joint access network by virtue of the Cooperation Agreement as it is defined herein in this Section;

“**The Generation 4 Network Joint Corporation**” – A Joint Corporation that was set up in accordance with the Generation 4 Cooperation Agreement;

“**Generation 3 Network Joint Corporation**” – A Joint Corporation that was set up in accordance with the Generation 3 Cooperation Agreement;

(2) Up to the date January 31, 2018 – the License Holder shall complete the establishment of the Generation 4 Network Joint Corporation and shall submit an Application for a Special License for the Generation 4 Network Joint Corporation, in accordance with the Telecommunications Regulations (Bezeq and Broadcasting) (Application Details for a Special License), 5764-2004.

Up to the date February 15, 2018 – the License Holder shall complete the establishment of the Generation 3 Network Joint Corporation and shall submit an Application for a Special License for the Generation 3 Network Joint Corporation, in accordance with the Telecommunications Regulations (Bezeq and Broadcasting) (Application Details for a Special License) 5764-2004. In addition, the License Holder shall fill the various positions in the Generation 4 Network Joint Corporation and in the Generation 3 Network Joint Corporation, as determined in Section 13 of the Generation 4 Cooperation Agreement and Section 23 of the Generation 3 Cooperation Agreement.

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- (3) The License Holder will connect and operate the joint network sites in accordance with that which is stated herein below:
- (a) Up to the date March 31, 2018 – Full connection and operation of all of the Joint Network sites, for the License Holder and xPhone;
 - (b) Up to the date April 30, 2018 – The connection and operation of at least half (50%) of all the sites of the Joint Network for the License Holder and Golan Telecom Ltd.;
 - (c) Up to the date July 31, 2018 – The connection and operation of all the sites of the Joint Network for the License Holder and Golan Telecom Ltd.
- (4)
- (a) The License Holder may not deviate from the timetable specified in sub-sections (2) and (3) above, unless the Director has authorized this for him, and provided that the License Holder contacted the Director in writing for the purpose of obtaining his immediate authorization after he found that difficulties arose, which preclude him from meeting the said deadlines.
 - (b) The Director may authorize the License Holder's request to deviate from the timetable, in full or in part, and stipulate conditions for the authorization thereof, and this, solely if the Director found, to his satisfaction, that the License Holder did everything in a reasonable manner under the circumstances of the matter to meet the deadlines.
- (5) Until the date of completion of the connection and operation of all the sites of the Joint Network as specified above, the License Holder shall transmit on the first day of every month the data specified herein below to the director of the Supervisory Administration in the Ministry:
- (a) The total of all the traffic of the License Holder in all the technologies divided in accordance with: Generation 2, Generation 3, and Generation 4; the total traffic including the volumes of information traffic of all subscribers;
 - (b) The percentage of traffic of the License Holder in the Joint Network out of the total traffic of the License Holder as specified in sub-section (a);
 - (c) The percentage of traffic of the License Holder that was implemented by way of intra-country migration out of the total traffic of the License Holder as specified in sub-section (a);
 - (d) The number of radio sites of the License Holder that were connected and operated within the framework of the Joint Network.

^{A2} Amendment No. 2

Part B: Means of Control – Changes and Limitations

20. Particulars of Licensee

- 20.1^{A43)} Details regarding the Licensee's legal entity, incorporation, holders of the controlling interest, holders of a material influence, interested parties and officers, are attached as Addendum A to the license. The Licensee must submit to the Director, every year at the beginning of January, an updated Addendum A.
- 20.2 The Licensee will report to the Director in writing regarding any change in the information contained in Addendum A, including any transfer and acquisition of control or of 5% of the means of control in the Licensee company or change in the appointment of a director or general manager, within 14 days of the date of change.

21. Transfer of Means of Control

- 21.1 There will be no transfer, directly or indirectly, of ten percent or more of any means of control in the Licensee, whether all at once or in parts, unless this received the Minister's prior consent.
- 21.2 There will be no kind of transfer of any means of control in the Licensee, or a part of said means of control, so that as a result of the transfer, control in the Licensee is transferred from one person to another, unless this was given the Minister's prior consent.
- 21.3 There will be no acquisition of control, directly or indirectly, in the Licensee, and there will be no acquisition, directly or indirectly, by a person himself or together with his relative or with another person, who operate with him regularly of 10% or more of any means of control in the Licensee, whether all at once or in parts, without the prior consent of the Minister.
- 21.4 Subject to the foregoing in this section, there will be no transfer, directly or indirectly, of means of control, so that the share of a cellular system operator in the Licensee drops below 25% of the voting rights in the general meeting and of the right to appoint a director or general manager, except after 5 years have elapsed since the date of the granting of the license. If 5 years have elapsed since the date of the granting of the license, the cellular system operator's share can go below 25% to the point of selling all the means of control in its possession to another, all subject to the Minister's approval for the very reduction of the cellular system operator's share in the means of control in the Licensee and also regarding the purchaser.
- 21.5 Notwithstanding that stated in sections 21.1 and 21.3, if traded means of control in the Licensee, not entailing the transfer of control in the Licensee, have been transferred or acquired at a rate requiring approval under sections 21.1 or 21.3, without the Minister's approval having been requested, the Licensee shall report this to the Minister, in writing, and shall submit to the Minister an application for approval of the transfer or the acquisition, all within 21 days from when the Licensee learned of this fact, provided the Minister gave his prior written approval to the holding per se of the issue or the sale of the securities to the public. In this regard, "**traded means of control**" – means of control, including deposit certificates, Global or American Depository Shares (GDRs or ADRs), or similar certificates, in respect of securities listed on the stock exchange in Israel and/or abroad, in a non-hostile country, or means of control offered to the public pursuant to a prospectus and held by the public, in Israel and/or abroad, in a non-hostile country.
- 21.6 Entry into an underwriting agreement in connection with an issue or sale of securities to the public, and listing on a stock exchange in Israel or abroad, in a non-hostile country, or the deposit of securities, including deposit certificates, Global or American Depository Shares (GDRs or ADRs), or similar certificates, in respect of securities, or the registration thereof with a nominee company and/or agent, shall not in themselves be deemed as the transfer of means of control in the Licensee.
- 21.7 (A) Irregular holdings shall be registered in the members register (shareholders register) at the Licensee, noting the fact of their irregularity, immediately when the Licensee learns of this fact, and a notice concerning the registration shall be delivered by the Licensee to the owner of the irregular holdings and to the Minister. In this regard, "**irregular holdings**" – the holding of traded means of control without the Minister's agreement as required under section 21 or in contravention of the provisions of section 23, and the entire holdings of a holder of traded means of control who acted contrary to the provisions of section 24; the aforesaid for as long as the Minister's agreement is required and was not given under section 21 of the license or circumstances exist involving the contravention of the provisions of sections 23 or 24 of the license.

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- (B) Irregular holdings registered as stated in section 21.7(A), shall not confer any rights on the holder, and shall be “dormant shares” as defined in section 308 of the Companies Law, 1999, except for purposes of receiving a dividend or other distribution to the shareholders (including the right to participate in an issue of rights which are calculated on the basis of holdings in means of control in the Licensee, except that holdings added as stated shall also be deemed as irregular holdings), therefore no act or contention of exercise of a right by virtue of irregular holdings shall be valid, except for purposes of receiving a dividend or other distribution as stated.
- (C) Irregular holdings shall not confer voting rights in the general meeting. A shareholder participating in a vote in the shareholders meeting shall notify the Licensee prior to the vote, or where the vote is by means of a voting instrument – on the voting instrument, whether or not its holdings in the Licensee or its vote require approval under sections 21 or 23 of the License. If the shareholders did not give a notice as stated, it shall not vote and its vote shall not be counted.
- (D) A director may not be appointed to the Licensee, elected or dismissed by virtue of irregular holdings. If a director was appointed, elected or dismissed as stated, such appointment, election or dismissal, as the case may be, shall not be valid.
- (E) The provisions of sections 21.7 and 21.9 shall be included in the articles of the Licensee, mutatis mutandis.

21.8 For as long as the Licensee’s articles prescribe as stated in section 21.7 and the Licensee acts in accordance with that stated in sections 21.5 and 21.7, for as long as the holdings of founding shareholders or their substitutes are not reduced to less than 50% of each of the means of control in the Licensee, and for as long as the Licensee’s articles prescribe that a majority of the voting power in the shareholders general meeting may appoint all the directors in the Licensee, excluding outside directors in accordance with any relevant statutory requirement or stock exchange directive, irregular holdings shall not in themselves be cause for the cancellation of the license.

For purposes of this section, “**founding shareholders or their substitutes**” – Discount Investment Corporation Ltd., DEC Communications and Technology Ltd. and PEC Israel Economic Corporation, or any other body to which any of those enumerated above transferred, with the Minister’s approval, means of control, provided the Minister confirmed in writing that the transferee body shall be deemed in this regard as the substitute of the founding shareholder beginning from the date to be determined by the Minister, and including anyone who is an “Israeli entity” as defined in clause 22.2A, who acquired a means of control from the Licensee and received the Minister’s approval for being deemed a founding shareholder of its substitute starting from the date that was determined by the Minister. The grant of approval under this section shall not exempt the Licensee from the duty of receiving the Minister’s approval for every transfer of means of control in the Licensee that requires approval under any other section of the license.

21.9 The provisions of sections 21.5 and 21.8 shall not apply to founding shareholders or their substitutes.

22. Encumbrance of Means of Control

A shareholder of the Licensee company or a shareholder of an interested party therein may not encumber his shares in such manner so that exercise of the encumbrance results in a change in ownership of 10% or more of any means of control in the Licensee, unless the encumbrance agreement contains a limitation by which the encumbrance may not be exercised without the prior consent of the Minister.

22A. Israeli Nationality and Holdings of Founding Shareholders or Their Substitutes

22A.1 The total holdings of “founding shareholders or their substitutes” as defined in section 21.8 (including anyone being an “Israeli entity” as defined in section 22.2A below, who acquired means of control from the Licensee and received the Minister’s approval for being deemed a founding shareholder or a substitute thereof as from the date determined by the Minister), who are mutually bound by an agreement for the fulfillment of the provisions of section 22A of the license (in this section, all of the above will be deemed: “founding shareholders or their substitutes”), cumulatively, may not be less than 26% of each of the means of control in the Licensee.

22A.2 The total holdings of “Israeli Entities”, one or more, who are listed with the founding shareholders or their alternates thereof, out of the total holdings of founding shareholders or their alternates thereof, as stated in section 22A.1 above, shall be at any time no less than five percent (5%) of the total issued share capital and of each of the means of control in the license holder^b. For this purpose, the Licensee’s issued share capital will be calculated less the number of “dormant shares” held by the Licensee.

In this section –

“**Israeli entity**” – With respect to an individual – anyone who is a citizen and resident of Israel; with respect to a corporation – the corporation was incorporated in Israel, and an individual who is a citizen and resident of Israel controls it, directly or indirectly, provided indirect control is solely through a corporation incorporated in Israel, one or more. However, for purposes of indirect holding, the Prime Minister and the Minister of Communications may approve holding through a corporation that was not incorporated in Israel, provided such corporation does not hold shares in the Licensee directly, where they are satisfied that this will not be detrimental to the purposes of this section. In this regard, “**Israeli citizen**” – as defined in the Citizenship Law 1952; “**resident**” – as defined in the Population Registry Law 1965; “**dormant share**” – as defined in section 308 of the Companies Law 1999.

22A.3 At least one tenth (10%) of the members of the Board of Directors of the license holder shall be appointed by the Israeli Entities, as aforesaid in section 22A.2. Notwithstanding the aforesaid, on this matter – if the Board of Directors of a license holder shall appoint up to 14 members – at least one director shall be appointed by the Israeli Entities, as aforesaid in section 22A.2; if the Board of Directors of the license holder shall appoint from 15 to 24 members – at least two directors shall be appointed by the Israeli Entities, as aforesaid in section 22.2A above, and so on.

22A.4 The Licensee’s board of directors will appoint from among its members having a security classification and security clearance as will be determined by the General Security Service (hereinafter – “**classified directors**”), a committee called the “Committee for Security Matters.”

At least four directors will serve on the Committee for Security Matters, among them at least one outside director. Matters pertaining to security will be considered, subject to that stated in clause 22A.5 below, solely in the framework of the Committee for Security Matters.

A resolution that was adopted or an action that was performed by the Committee for Security Matters, will be deemed the same as a resolution adopted or action performed by the Company’s board of directors, and it will be considered by the board of directors only if this is required under section 22A.5 below and subject to that stated in section 22A.5 below. In this clause, “security matters” – as defined in the Telecommunications Order (Designation of an Essential Service Provided by Bezeq Israeli Telecommunications Company Ltd.) 1997.

^b The commencement of section 2 shall be on 8 Av 5777 (July 31, 2017) (hereinafter – “**The Date of Commencement**”). During the period from the date of signature of the amendment of this license and until the Date of Commencement, in section 2.22A, in place of “shall be at any time no less than 20% of the total issued share capital and of each of the means of control in the license holder. On this matter the issued share capital of the license holder shall be calculated, with the deduction of the number of dormant shares held by the license holder” it shall be deemed as if it states “shall be at a rate of 0% subject to the fulfillment of all the conditions specified in Appendix XVII of the License.

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22A.5 Security matters which the Licensee's board of directors or Audit Committee are required to consider according to the cogent provisions in the Companies Law 1999 or according to cogent provisions of any other law applying to the Licensee, will be considered, insofar as necessary, by the board of directors or by the Audit Committee, with the participation of classified directors only. Non-classified directors may not participate in such meetings of the board of directors or the Audit Committee and may not receive information or inspect documents pertaining to the security matters considered in the meeting. The quorum in every such meeting will consist of classified directors only.

The Licensee will specify in its articles that an officer who by virtue of his position and by virtue of the provisions of the law or the articles should have received information or participated in meetings on security matters, and is prevented from doing so by reason of the provision of clause 22A.5, will be exempt from liability for breach of the duty of care towards the Licensee, if the duty of care was breached due to non-participation in a meeting or non-receipt of information.

22A.6 The general meeting may not assume, delegate, transfer or exercise powers that are vested in another organ of the Company, in security matters.

22A.7 (A) The Minister will appoint an observer at meetings of the Company's board of directors and committees, having a security classification and security clearance as will be determined by the General Security Service.

(B) The observer will be a government employee qualifying as a director under Chapter C of the Government Companies Law 1975.

(C) In addition, and without derogating from any duty imposed on him by law, the observer will owe the Licensee a duty of confidentiality, except as required for the fulfillment of his function as an observer. The observer may not serve as an observer or in any other position on behalf of any other entity engaging in the provision of communication services and competing directly with the Licensee, and he will avoid any conflict of interest between his function as an observer and the Licensee, except a conflict of interest stemming from his being a government employee filling the function of an observer at the Licensee. The observer will commit towards the Licensee not to serve as an observer or officer and not to hold any position or be employed, directly or indirectly, at any entity competing directly with the Licensee or being in a conflict of interest with it, except for a conflict of interest stemming, as stated, from his being a government employee filling the function of an observer at the Licensee, throughout his tenure as observer at the Licensee and during eighteen (18) after the end of such tenure.

In any case of differences of opinion as to the observer being in a conflict of interest, the Attorney General or someone on his behalf will decide in the matter.

(D) An invitation to meetings of the board of directors and its committees, including the Committee for Security Matters, will be delivered to the observer as well, who may participate as an observer at any meeting as stated.

(E) The observer's right to receive information from the Licensee will be the same as a director's right. If the Licensee is of the opinion that certain information in the nature of sensitive business information is not required by the observer for the fulfillment of his function, the Licensee may withhold delivery of such information to the observer, notifying him in this regard. If the observer is of the opinion that he should receive that information, the matter will be referred to the decision of the head of the General Security Services.

(F) If the observer saw that the Licensee adopted or is about to adopt a resolution on security matters contrary to any provision of the license, contract to section 13 of the Law or contrary to section 11 of the General Security Services Law 2002, it will notify the Licensee without any delay, in writing, such notice to be delivered to the chairman of the board of directors and to the chairman of the Committee for Security Matters, and to set a proper time in the circumstances of the case for remedying the breach or modifying the resolution, should this be possible.

Part C: Cross-Ownership and Conflict of Interest

23. Prohibition on Cross-Ownership

- 23.1 The Licensee, an officer therein or whoever holds more than 5% of any means of control in the Licensee, will not hold, directly or indirectly, more than one percent (5%) of the means of control in Bezeq, ^{A16)} another cellular system operator. Regarding this matter, "holding" – includes the holding as an agent.
- 23.2 Notwithstanding that stated in Section 23.1, an interested party in the Licensee that is a mutual fund, insurance company, investment company or a pension fund, may hold up to 5% of the means of control in Bezeq, another cellular system operator ^{A16)}, provided all the following are fulfilled:
- (A) It is not a controlling shareholder and does not exert, directly or indirectly, any control in Bezeq or ^{A16)} another cellular system operator;
- (B) It has no representative or person in charge on its behalf among Bezeq's or the other cellular system operator's officers, unless required to do so by law.
- 23.3 Pursuant to a written request, the Minister may allow an interested party in the Licensee, as stated in Section 23.2, to hold up to 10% of the means of control in Bezeq, ^{A16)} another cellular system operator, when the terms stated in Section 23.2(A) and (B) are fulfilled, if he saw, to his satisfaction, that such a holding will not harm competition.

24. Prohibition on a Conflict of Interest

- 24.1 The Licensee, an officer therein or an interested party in the Licensee company will not be a party to any agreement, arrangement or understanding with Bezeq, ^{A16)} another cellular system operator, meant or liable to reduce competition or harm it in all pertaining to cellular system services, cellphone network end-equipment and other services provided via the cellular system.
- 24.2 Without derogating from the aforementioned in Clause 24.1, the License Owner shall reach a cooperation agreement as stated in Clause 19.1B

Chapter D: Setup and Operation of Cellular system

Part A: Setting Up the System

25. Definition

In this part –

"Milestones" – Stages in the setup of the cellular system, according to the timetable detailed in the engineering plan – Addendum B to the license.

26. Setup according to Plans and Specifications

26.1 In all pertaining to the setup and operation of the cellular system (in this section – network), including the technical quality of its various components, as well as the network's structure and manner of setup, the Licensee will comply with the terms and provisions in the engineering plan.

26.2 The Licensee will follow all the specifications of the Ministry of Communications and the network-related standards prescribed by standardization organizations in Israel and around the world, as well as other international organizations, in the telecommunications and wireless field as well as in any other field pertaining to the setup and operation of the network.

26.3 The Licensee may discontinue the operation of a cellular system that has become technologically obsolete, after received the Director's approval in that regard and subject to conditions to be set in the License^{A63}.

26.A Approval of Operation

26.1A The License Owner shall contact the director in writing for the receipt of his approval to commence the provision of Generation 4 services (hereinafter – "**Approval of Operation**")

The License Owner may commence the provision of Generation 4 services only after receiving Approval of Operation from the director.

26B Obligation to Provide Generation 4 Service

26.1B If the License Owner has not begun providing Generation 4 Services within 12 months from the determining date, as stated in Clause 2.1(b)(2)(a) to Appendix E, the frequencies allotment that it provided for the provision of this service shall expire, and the license fees paid due to the award of the Generation 4 Tender shall not be returned.

The expiration of the frequencies allotment as stated shall be considered a change of the Cooperation Agreement or change of the Usage Agreement, as applicable.

27. Execution Stages and Timetable

27.1 The setup rate of the cellular system, the setup milestones, the commencement date for providing the service in the various regions in Israel, will be in accordance with the timetable set in the engineering plan – Addendum B to the license.

27.2 The Licensee may not deviate from the timetable unless authorized to do so by the Director, provided the Licensee applies in writing to the Director to receive his permission immediately after realizing that difficulties have arisen that prevent it from meeting the original timetable.

27.2.1 A delay in signing agreements with a third party or obtaining approval from the planning and construction authorities will be deemed a reasonable reason for obtaining the Director's permission for deviating from the timetable, only if the Director realizes to his satisfaction that the Licensee has done its reasonable utmost in the circumstances of the matter, to come to an agreement with a third party or to receive approval from the planning and construction authorities.

27.3 The Director may approve the Licensee's request to deviate from the timetable, in whole or in part, and to stipulate conditions for its approval. The Director may also approve deviation regarding a specific milestone, provided the Licensee undertakes to catch up with the planned setup rate in the succeeding milestones.

^{A63} Amendment No. 63

28. Modification of Plans during Setup

- 28.1 The Licensee may not deviate from the engineering plan unless it has been authorized to do so by the Director under the provisions of this section. However, the placement of a Cellular Radio Center in a different site from that set in the engineering plan will not be deemed a deviation, if done within the search region. As regards this section, a "search region" denotes a territory defined in the engineering plan in which a Cellular Radio center is planned to be set up, at a specific site within the territory, and regarding which it has been stated in the engineering plan that it might be necessary to place the center in another site found in the territory.
- 28.2 If in the course of setting up the cellular system, the Licensee realizes that it has become necessary to deviate or depart from the engineering plan, the Licensee must apply in writing to the Director to obtain his approval for the plan. In its application, the Licensee must describe the essence and nature of the requested modification and the reasons therefor. The Licensee must attach the amended plan it proposes, to the application.
- 28.3 The Director may reject or approve the request, in whole or in part, and may also stipulate conditions for its approval, insofar as these are needed for the rigorous assurance of the network's quality and performance level. The Director will make a decision in the matter of the request and notify the Licensee of his decision, all within a reasonable amount of time.

29. Utilization and Construction of Infrastructures

- 29.1 For the purpose of setting up and operating the cellular network, the Licensee may, subject to any law, set up, maintain and operate cable or wireless transmission arteries, provided such transmission arteries will be used solely for the following:
- (A) Connection between the Cellular Radio Centers forming part of the Licensee's cellular system;
 - (B) Connection between the Licensee's Cellular Radio Centers and its cellular exchanges;
 - (C) Connection between all the cellular exchanges;
 - (D) Connection between the Licensee's cellular exchanges and a public telecommunications system, or another cellular operator's cellular network^{A16)}, or other systems operating lawfully.
 - (E) Connection between the mobile telephony communications system component exclusively owned by the License Owner and the joint mobile telephony communications system component.
- 29.2 For the purpose of the connection described in Section 29.1, the Licensee may use also the cable or wireless transmission arteries of Bezeq or of another licensee or concessionaire lawfully authorized to provide aforesaid infrastructure services.
- 29.3 To remove any doubt, it is hereby clarified that use of the transmission arteries to be set up by the Licensee is solely for operating the cellular system as stated in Section 29.1, unless the Minister permitted the Licensee in the license to make other use thereof, in accordance with the terms he laid down.

30.^{A16)} Obligation of Interconnection

- 30.1 The Licensee will act to effect interconnection of the network with every other public telecommunications network, operating in the territory subject to the law, jurisdiction and governance of the State of Israel (including settlements, military sites and military installations in Judah, Samaria and Gaza Strip), including with every public landline telecommunications network, international telecommunications network and cellular network of another cellular operator.

- 30.2 The interconnection between the network and another licensee's public telecommunications network will be effected in such manner as to enable the following:
- (A) Relay of telecommunication messages between end-equipment connected to the network and end-equipment connected to the other public telecommunications network;
 - (B) Proper, regular provision of services by the Licensee to the other licensee's subscribers, and the provision of services by the other licensee to the Licensee's subscribers.
- 30.3 Interconnection may be effected either directly or indirectly, via a public telecommunications network of another general license holder, provided it enables that stated in Section 30.2.
- 30.4 As regards the interconnection between the network and public landline telecommunications network, the Licensee will act to set up interface points between the two networks, for each type of service (infrastructure, data transmission and communication, telephony), with at least three transition switches, unless the Director has decided otherwise at the written request of the Licensee. Setup of the interface points will be done under an agreement between the Licensee and the domestic operator licensee. Such an agreement will include, inter alia, the technical, operational and business details of the connection, the number of connections and their location.
- 30.5 As regards the interconnection between the network and an international telecommunications network, the Licensee will act in compliance with the provisions of Addendum J to the license.

30A.^{A16} Rules Concerning the Implementation of Interconnection

The Licensee will act to implement interconnection in accordance with all the following:

- (A) The Licensee will verify that the network's technical and operational standards comply with the requirements for linkup with the public telecommunications network of the domestic operators, the other cellphone operators, and the international operators (hereinafter – **other operator**), that the network's activities will mesh properly with the activities of the other operator's public telecommunications network, and that the interconnection will not adversely affect the proper functioning of these networks and the normal service to their subscribers;
- (B) The Licensee will provide the interconnection service under equal conditions for every other operator and avoid any discrimination in actuating the interconnection, including with regard to the following:
 - (1) Supply of infrastructure facilities and network linkup services;
 - (2) Availability of linkup facilities;
 - (3) Linkup method, quality and survival;
 - (4) Alterations and adaptations in the switching in the facilities, in the protocols and at the network interface points;
 - (5) Payments for interconnection;
 - (6) Debiting and collection arrangements, and the transfer of information regarding subscribers;
 - (7) Commercial terms for effecting interconnection;
 - (8) Submission of information regarding the network and alteration therein relating to interconnection;
- (C) The Licensee will place at the disposal of the other operator any essential information the other operator needs for providing its services via the Licensee's facilities. Said information will be given subject to any law concerning the protection of privacy or commercial confidentiality. In the event the parties fail to reach an agreement regarding the nature and scope of the essential information, the Minister will decide in the matter;
- (D) The Licensee will give the other operator information regarding alterations planned in its network, which may affect the interconnection with the other operator's public telecommunications' network, or the interconnection between the public telecommunications networks of the other operators. The Licensee will provide the aforesaid information in such manner as to enable the other operator to prepare reasonably for the implementation of said alterations;

- (E) As regards Subsections (C) and (D), the Licensee may stipulate the provision of information to the other operator on signing a reasonable privacy protection agreement, intended to safeguard the Licensee's rights under any law, including trade secrets, intellectual property rights and the like, pertaining to information regarding modification of the network meant to be given to the other operator;
- (F) The terms in respect of interconnection between the network and the other operator's public telecommunications network will be formalized in an agreement between the Licensee and the other operator. If the parties fail to reach an agreement, the Minister will decide in the matter.
- (G)
 - (1) The Licensee will allow its subscribers to receive all the services offered to them by another operator, The Licensee may also allow another operator's subscribers to receive services from the Licensee, provided that said receipt of services is possible under any law.
 - (2) The Director may order the Licensee to allow the other operator's subscribers to receive services provided by the Licensee, provided that such receipt of services is possible technically and under any law.
 - (3) Notwithstanding that stated in Subsection (1), the Director may, at the written request of the Licensee, exempt the Licensee from the obligation of allowing its subscribers the possibility of receiving services from another operator, for technical, economic reasons or for other justified reasons.
- (H) The Licensee will forward to the Director a signed copy of every agreement between it and the other operator concerning interconnection;
- (I) The Licensee will forward to the Director on demand, any information given to the other operator under Subsections (C) and (D), as well as a copy of every confidentiality agreement under Subsection (E);
- (J) The Licensee will act in compliance with additional provisions the Minister will prescribe.

30B.^{A16} Payment for Traffic Completion and Interconnection

In the event the Minister did not determine payment for interconnection or payment deriving from interconnection, the Licensee may demand in respect thereof reasonable and non-discriminatory payment.

30C.^{A16} Prohibition on Delaying Interconnection

The Minister will give the Licensee a reasonable opportunity to voice his position in all pertaining to the Minister's intention to order it regarding the manner of effecting interconnection and its scope, regarding the actions, services and arrangements incidental to effecting interconnection, and regarding payments in respect of interconnection. Once the Minister has instructed the Licensee on said matters, the Licensee will not delay in any way interconnection with the network, and will fulfill its obligations in accordance with the Minister's provisions, properly and in good faith, on the date set therefor and with full cooperation.

30D.^{A16} Providing the Possibility of Utilization

- 30.1D The Minister may order the Licensee to provide the possibility of utilizing its telecommunications facility, by virtue of his authority under Section 5 of the Law.

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30.2D The Licensee will enable another licensee, by the Minister's order, to provide value added services via the Licensee's network. The Licensee will ensure reasonable and equal terms for any other licensee, in all pertaining to the provision of value added services by the latter to the Licensee's subscribers.

30.3D As regards providing the possibility of utilization, the provisions of Sections 30A to 30C will apply, mutatis mutandis.

30E.^{A16} Infrastructure Services for an Interested Company

30.1E The Licensee will not give preference, in providing infrastructure services, to a licensee that is an interested company over another licensee, whether in payment for the service, in service conditions, in service availability or in any other way.

30.2E (A) Pursuant to a written request from the Licensee, the Director may permit the Licensee limitations on the provisions of Section 30.1E, in all pertaining to another licensee or a broadcasting licensee that is an interested company, provided the following conditions are fulfilled:

(1) The other licensee or the concessionaire is not a material operator:

(2) The Director is of the opinion that giving such permission does not materially harm competition in the field of telecommunications.

(B) As regards the limitations stated in Subsection (A), these may allow the Licensee to offer an interested company the use of its telecommunications facilities under preferred conditions, and these may be limited in time or by another condition.

(C) When considering a permit under this section, the Director will take into account the existence of a valid agreement, which was signed prior to Amendment No. 16 to this license, between the Licensee and the interested company, concerning, inter alia, the restriction of the permit in time or by other conditions.

30.3E In this section – "**interested company**," "**subsidiary**," and "**material operator**" – as these terms are defined in the Telecommunications Regulations (Procedures and Conditions for Obtaining a General License for Providing Domestic Landline Telecommunications Services), 2000.

30F.^{A16} Numbering Program

30.1F The Licensee will act in accordance with the numbering program, and in compliance with the Director's provisions regarding the activation and implementation of the numbering program.

30.2F The Director ordered the activation of number portability, so that every subscriber of another cellular system licensee will be able to switch over to and be a subscriber of the Licensee or receive services from the Licensee without any change in his telephone number, and vice versa – the Licensee will incorporate into its public telecommunications network devices enabling the application of this property, on the date and using the method laid down in the Director's provision.

31. Reports on the Setup Works

- 31.1 The Licensee will submit to the Director, throughout the cellular system setup period, quarterly reports describing the setup works carried out during the period of each report, according to the milestones and timetables in the engineering plan. As regards this section, "the setup period" denotes 15 months from the date the license was granted or until the date of the completion of the network's setup in full deployment, according to the engineering plan, whichever the earlier. ^{A72}In the setup period, this report shall be integrated into the engineering system report, as stated in Section 104.1(e)
- 31.2 The reports will include a comparison of the plans' execution versus the plan for each report's period, as well as explanations for any deviation or alteration that occurred in the execution compared with the plan.
- 31.3 Each report will be submitted in triplicate in a format to be instructed by the Director, and will bear a date and be signed by the Licensee or whoever it empowered especially for this purpose.
- 31.4 The Director may demand that the Licensee prepare special reports, and also that it draw up a new or supplement a report submitted to him.

32. Handover of Information and Documents

The Licensee will furnish to the Director, on demand, any information or document regarding the execution of cellular system setup works, at the time, in the format, and in the manner instructed by the Director.

33. Supervision of Setup Works

- 33.1 The Director may supervise, by himself or through a designee, the Licensee's actions connected with the execution of the setup works. To this end, the Director may enter at any reasonable time, the Licensee's work sites, cellular system facilities and offices, for the purpose of making measurements, performing inspections and perusing any plan or document pertaining to the execution of the setup works.
- 33.2 The Licensee will cooperate with the Director in all pertaining to the supervision of the setup works, and without derogating from the generality of the foregoing, will enable him to enter the work site and its facilities, enable the perusal of any document, plan and specification, and provide him with any information he requests.

34. Correction of Deficiencies and Defects

- 34.1 The Director may notify the Licensee in writing about deficiencies, defects and deviations he found in the cellular system setup operations, based on reports submitted by the Licensee, documents and information it furnished him, or based on measurements and inspections he made.

^{A72} Amendment No. 72 (Inception: This amendment will come into force on the day of signing the Amendment)

- 34.2 In the event the Licensee receives a notice as stated in Section 34.1, it will notify the Director, within fourteen days of the date of receiving the notice, regarding its response to that stated therein and the measures it took or plans to take, in order to correct the deficiencies, defects or deviations.

35. Safety Precautions and Prevention of Hazards

- 35.1 The Licensee will execute the setup works, taking adequate safety precautions to prevent personal accidents and property damage, will prevent the causation of nuisances and hazards to the public in the work areas, and if required to do excavations at the spot, will do everything to prevent damages to underground systems, including telecommunications networks, and to this end will make sure to obtain every permit required by any law, including an excavation works permit under Section 53B of the Law.

35.2 Upon completion of the setup works, the Licensee will make sure to clean up the work sites and restore them to their previous condition.

36. **Void.**^(A2)

37. **Intersections with Electricity and Telecommunications Lines**

In a place where there are electricity lines or electricity facilities prior to the installation of the cellular system, the Licensee is subject to the obligations imposed under the Telecommunications and Electricity Regulations (Convergence and Intersection between Telecommunications Lines and Electricity Lines), 1986.

38. **Discovery of Antiquities and Site Preservation**

38.1 Antiquities, as defined in the Antiquities Law, 1978, which are discovered at a setup work site, are state assets, and the Licensee will take the appropriate precautions to prevent damage thereto.

38.2 The Licensee will notify the director of the antiquities authority regarding the discovery of an antiquity within 15 days of the date of the antiquity's discovery and will follow the instructions of the authority's director in all pertaining to the manner of handling the antiquity.

38.3 In the course of the setup works, the Licensee will avoid, inasmuch as possible, damaging sites of historical or national value, tourist sites and landscape.

38.4 The Licensee will avoid, insofar as possible, damaging buildings and trees found in the places where setup works are being carried out.

39. **Land-Related Powers**

39.1 The Minister may, at the Licensee's request, grant it all or some of the powers prescribed in Chapter F of the Law, subject to that stated in Section 39.2.

39.2 The Licensee will specify in its request the sites at which it requires the aforesaid powers, the scope of the required powers and the reasons therefor, including the steps it took to find alternative sites, without having to use the power under Chapter F of the Law.

39.3 In the event the Minister is convinced of the need to grant the Licensee powers under Chapter F of the Law, the Minister will publish his decision in the *Reshumot* (Official Announcements and Advertisements Gazette).

Part B: Equipment Checks and Installation Certifications

40. Compliance Check

The Director may determine which items of equipment should not be installed in the Cellular System before undergoing a compliance check. "Compliance" as regards this section – as emerges from that stated in Section 41. If the Director has decided as aforesaid, the items will not be installed before undergoing a compliance check.

41. Responsibility for Compliance

It is the responsibility of the Licensee to see to it that the equipment installed in the Cellular System is, at least, technically compliant with the properties detailed in the manufacturer's specifications relating to the specific item of equipment, and attached to the engineering plan.

42. Performance Testing Program and Its Approval

42.1 The Licensee will furnish the Director, no later than 30 days before giving notice of the completion of installation under Section 43, with an up-to-date, detailed testing program for carrying out the performance check, relating to that part of the Cellular System it wishes to operate (hereinafter – detailed testing program).

42.2 The Licensee will present the detailed testing program to the Director. The Director may demand within 15 days of the aforesaid presentation that the Licensee make changes in the detailed testing program or complete it, if he deems it necessary for the full and accurate execution of the performance check, and the Licensee will carry out the checks according to the Director's request.

43. Notice of Setup Completion

Once the Licensee has completed setting up a Switchboard or Cellular Radio Center in some region, so that it is possible to start providing cellular services through it, the Licensee will notify the Director in writing thereof, in the format it was instructed by the Director, along with the results of the detailed check indicating successful installation and operation.

44. Terms of Fitness and Operation

44.1 Prior to operating the network, the Licensee must meet the requirements and conditions detailed below:

(A) Entering into an Agreement with an Equipment Manufacturer

The Licensee must have agreements in force for the entire operation period planned, with a Cellular System manufacturer, comprising the following:

- (1) Know-how agreement;
- (2) An agreement guaranteeing the supply of parts for the network's equipment for a period of at least 7 years;
- (3) An agreement guaranteeing the supply of technical literature and full documentation of the network's equipment, including updates.

(B) Lab and Testing Equipment

The Licensee must operate a lab, or have a valid agreement with a competent lab. The lab should include professional testing equipment for performing the checks and making the repairs on the Cellular System equipment, including mobile testing equipment.

(C) Parts

The Licensee must maintain and run a spare parts warehouse for Cellular System equipment according to the recommendations of the equipment manufacturers.

(D) Maintenance System

The Licensee must maintain, on its own or through another, an efficient maintenance system, consisting of maintenance personnel, service vans and communication means, ensuring the proper, ongoing operation of the network and enabling the handling of any malfunction within the response time required under this license, and also enabling, in any case of a serious problem with the Cellular System causing radio interferences, large-scale disconnection of subscribers or posing a safety risk, repair of the malfunction within 4 hours.

(E) Communication Means

Means of communication, such as a walkie-talkie, telephone or cellphone, should be installed in the operation exchanges and centers, as well as in the service and maintenance centers.

- 44.2 The Licensee must present to the Director, seven days before setting the network in operation for the first time, certifications and documents regarding compliance with the requirements and conditions specified in Section 44.1. In the event the Director fails to respond within five days of the date of delivery of said documents, the Licensee may operate the Cellular System and connect subscribers thereto. If the Director orders the Licensee, based on the documents' findings, to alter or fix the network, the Licensee must make the required alteration or correction and present a certification of execution to the Director, and if the Director fails to respond within 3 days, the Licensee may operate the system.

Part C: Use of Frequencies

45. Allocation of Frequencies^{A16)}

- 45.1 The Licensee may operate the Cellular Radio centers of the Cellular System, using the frequency bands allocated for its exclusive use, as detailed below:

(A)^{A35)} 835 to 845 MHz and corresponding range 880 to 890 MHz;

(A1)^{A35)} 1710 to 1712 MHz and corresponding range 1805 to 1807 MHz;

That stated in this subsection in no way derogates from the Director's authority to allocate an alternative frequency band with identical bandwidth for the Licensee's use, instead of the frequency band specified in this subsection.

(B) Starting from February 1, 2002 to January 1, 2004 the following bands will be allocated:

1710 to 1715.4 MHz and corresponding range 1805 to 1810.4 MHz;
1716.6 to 1721.2 MHz and corresponding range 1811.6 to 1816 MHz;
1962 to 1967 MHz and corresponding range 2152 to 2157 MHz;

(C) Starting from January 1, 2004 the following bands will be allocated:

1720 to 1730 MHz and corresponding range 1815 to 1825 MHz;
1960 to 1970 MHz and corresponding range 2150 to 2160 MHz;
as well as the frequency range 1905 to 1910 MHz.

(C1)^{A2A26)} Starting from April 4, 2004 the following frequency bands will be allocated:

1715 to 1720 MHz and corresponding range 1810 to 1815 MHz.

(D) Notwithstanding the foregoing, in the event the Licensee asks to postpone the usage commencement date for the frequencies specified in subsections (B) and (C), or a part thereof, to a later date, the Director may suspend the allocation of frequencies to a date he decides on.

- 45.2 The Licensee may select a narrower frequency band than that stated above in the framework of the frequency bands specified in Section 45.1.

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45.3 In the event of detection of electromagnetic interferences from other radiants that can harm the proper functioning of the Cellular System, the Director must, at the Licensee's request, take any reasonable action to find an appropriate solution or stop the aforesaid interferences.

46. Restriction on Use of Frequencies

46.1 The Licensee will make use of the frequencies allocated to it as stated in Section 45 only for providing the services under this license.

46.2 Without derogating from the aforementioned in Clauses 45 and 46.1, and in accordance with the terms of the allotment provided to the other mobile telephony communications license owner, the License Owner may make use of the frequencies allotted to the other mobile telephony communications license owner in addition to the aforementioned in Clause 45, provided that the frequencies serve as cellular radio centers of the License Owner through the cellular radio infrastructure license owner that provides it with its services.

47. Prevention of Interferences

47.1 The Licensee will set up the Cellular System and operate it in such manner so that no part of its parts will emit radiation prohibited under the provisions of the Pharmacists' Regulations (Radioactive Elements and Their Products), 1980, and do everything required, if required, to obtain a permit in accordance with the aforesaid regulations.

47.2 The Licensee will coordinate the use of the frequencies with the Director, who will base his directives, inter alia, on the program derived from the preparation for a national emergency crisis.

47.3 The Licensee will submit to the Director, or anyone appointed for this purpose on its behalf, a detailed, up-to-date plan for the operation of Cellular Radio Centers and for the expected use of the frequencies at least 60 days before the operation, and will report to the Director regarding the actual execution, within 7 days of the operation date.

47.4 The Licensee will set up and operate the Cellular System in such a manner as to prevent interferences with other Bezeq and wireless systems operating lawfully. Prior to the activation of any Cellular System, the Licensee will perform tests and measurements for the purpose of preventing electromagnetic interferences. If found that electromagnetic interferences can be expected or interferences have been detected during operation, the Licensee will act to find a solution that will prevent these interferences and also prevent their recurrence, and in the absence of a solution it will turn in writing to the Director or to anyone appointed for this purpose on its behalf, in order to find a reasonable solution in this regard. The Director may demand that each of the parties make changes in the operation of the equipment or in the use of the frequencies or that they stop broadcasting over certain frequencies, throughout the country or in a certain region.

47.5 The granting of this license, including the approval of the engineering plan, in no way provides protection against harmonics from other radiants operating lawfully, or other radiants operating outside state territory; however, the Director must make every reasonable effort to find an appropriate solution providing the necessary protection.

48. Preparing to ensure continuity of operations in emergencies

48.1 The License Holder will appoint a functionary (including a first deputy and a second deputy) who will be responsible in emergencies for maintaining contact with the Ministry; the License Holder will provide to the Director, once a year, on January 1st, the details of the functionary and his deputies, as well as their contact details.

48.2 The License Holder will be prepared to ensure continuity of operations in emergencies, as specified in Annex D – "Preparing to Ensure Continuity of Operations in Emergencies".

Part D: Inspections and Maintenance^(A43)

49. Definitions

"**Periodical inspection**" – An inspection of the network or any part thereof performed according to the license's provisions, at fixed time intervals and at least once every half year;

"**Special inspection**" – An inspection of the network or any part thereof performed due to a maintenance action or repair, following electromagnetic interferences, a malfunction, clarification of a complaint, a technological modification, an alteration in the engineering plan or the like;

"**Regular inspection**" – An inspection of the network or any part thereof, done on a regular, ongoing basis.

50. Performance of Inspections

- 50.1 The Licensee will carry out periodical inspections on the Cellular System and will submit the results of the inspection, at the Director's request, within 30 days of the day of the request.
- 50.2 The Licensee will set up and operate a control system for continual monitoring of the performance and functionality of the network, and will perform, on an ongoing basis, regular inspections of the network or any part thereof, as necessary.
- 50.3 The Licensee will perform a regular inspection for quality of the service as detailed in Addendum E, including compliance with relevant ITU-T standards, and will submit the results of the inspection, at the Director's request, within 30 days of the day of the request.
- 50.4 The Director may instruct the Licensee to perform a special inspection; The Licensee will perform such inspection in the format and at the time specified by the Director and will submit its results to him.
- 50.5 The Director or anyone so authorized by him will be allowed to carry out inspections himself, where he deems this to be necessary; The Licensee will permit the Director or anyone so authorized by him access to the installations and the equipment, subject to prior coordination, and will place at his disposal testing equipment used by it or professional manpower employed by it.

51. Inspections, Malfunctions and Maintenance Log

- 51.1 The Licensee will manage an inspections, malfunctions and maintenance log (hereinafter – maintenance log), in which details of the malfunctions in and inspections of the network are recorded.
- 51.2 The Licensee will keep the maintenance log and enable the Director or a representative authorized by him to peruse it at any time, to examine it or copy it in any manner, and will submit it for inspection by the Director at his request.

52. Repair of Deficiencies and Defects

- 52.1 The Director may, after giving the Licensee sufficient opportunity in the circumstances of the case to present its case to him, notify the Licensee in writing of deficiencies and defects he found that are affecting the level of the service to Subscribers, the level of survivability and backup of the network or the safety level or interfering with other lawfully operating systems, based on a follow-up of the network's performance, including by means of Subscribers' complaints or inspections carried out by him or on the basis of inspection reports, documents and information provided to him by the Licensee.
- 52.2 The Director may instruct the Licensee regarding the times by which it must correct the deficiencies and defects.
- 52.3 In the event the Licensee received such a notice, it will notify the Director, within the time set for this purpose in the Director's notice, of the correction of the deficiencies and defects, at the level of detail requested by the Director.
53. **Void.**
54. **Void.**

Chapter E: Providing Cellular Services to Subscribers

Part A: Entering into an Agreement with Subscribers

55.^{A43)} The Contract

- 55.1 The Licensee will prepare a wording for the contract that it intends to offer its subscribers, and will submit it for the Director's perusal at his request.
- 55.2 The terms of the contract shall not contradict, explicitly or implicitly, the provisions of any law or the provisions of the license: The aforesaid shall not prevent the stipulation of various provisions in the contract that benefit the subscriber compared to the provisions of the law or the license.
- 55.3 The contract will be in writing and laid out in a clear manner conducive to reading and comprehension and specifying prominently any term or limitation on the subscriber's right to cancel the contract or on the Licensee's liability toward the subscriber; Any stipulation in the contract shall be stated explicitly and not by way of reference.

For purposes of this section, "writing" – including an electronic document that can be saved and retrieved by the subscriber.

- 55.4 The contract will include, *inter alia*, in a clear manner, the following:
- (a) The first part of the contracting agreement shall clearly and accurately specify the main points of the fees and services plan according to the contracting agreement (hereinafter – the "**Main Points of the Plan**"). Should the contracting agreement include one type of services, the license owner may specify the Main Points of the Plan over no more than two pages. Should the agreement include a number of service types (landline, mobile phone, international services, internet, etc.), subject to the aforementioned, the license owner may add one page for each type of additional service. The Main Points of the Plan document shall be printed, without handwritten amendments or addenda, with the exception of that stated in Section (1), and as specified below:

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- (1) Licensee's name or logo, details of the Licensee's representative who executed the contract, Date and method of contracting execution^c, subscriber's details including name, identity number, subscriber type, address, electronic mail, telephone number to which the contract relates, additional telephone number of the subscriber for sending notices from the license owner concerning the rate of utilization of the service package as stated in section 75D and regarding the disconnection of a dormant subscriber, as stated in Section 72A and a description of the goods, if included in the contract. Notwithstanding that stated at the beginning of section (a), the details mentioned in this subsection, other than the Licensee's name or logo, can be written in handwriting.
- (2) The duration of the commitment period, if any, and its expiry date. For purposes of this subsection, "commitment" – as this term is defined in section 56.1A.
- (3) All rates, according to which the license owner charges the subscriber for the services he requested to receive during the performance of the contract, including video call services and multimedia messages, and the rate of each fixed payment or one-time payment, including fixed payment of one-time payment which is not a Bezeq service, including connection fees, as defined in Section 74.1(a), smart card fees, as defined in Section 74.1(a1) and plan transfer fees.

If the license owner does not charge for connection fees or smart card fees or plan transfer fees, it shall be noted accordingly.

If the contracting agreement includes international services in the form of a package or plan of call minutes abroad, the license owner shall state its rates, the quota of the allotted minutes therein, the three-digit international access code which needs to be dialed, the countries included therein, the type of destinations in those countries (landline, mobile), and rate for deviating therefrom.

- (3A) With respect to a surfing package, as this term is defined in section 75D – the service unit rate outside the package will be presented in the same values as in the package.
- (3b) The quota of the service units determined by the license owner for the service or the service package ("Units Quota"), and the maximum length of a call, if any.
- (3c) If the license owner provides the subscriber with a service provided at a discount or for free for a fixed period ("Benefit"), and thereafter for full pay or the subscriber receives a credit for the end equipment which the subscriber provided to the license owner, the license owner shall specify the Main Points of the Plan as follows:
 - (1) The monthly amount of the benefit / credit;
 - (2) The duration for providing the benefit / credit;
 - (3) Type of term from which the benefit / credit period begins being counted;
 - (4) Service rate after the termination of providing the benefit.

The abovementioned shall apply also when the benefit is provided in the framework of a rate plan, and not only for a specific service included in the plan.

- (3d) If the subscriber transfers from one rate plan to another, and the license owner provided the subscriber with the main points of the new plan, the Main Points of the Plan shall also include the date of entry into force of the new plan.
- (3e) The manner in which the online service is provided after exhausting the entire volume of the browsing package – termination of service or slowing down of pace, without payment and without an additional charge, until the end of the bill term or the allotment of additional packages for pay, according to the choice of the subscriber at the time of performing the contract. Should the license owner choose to slow down the pace, it shall state in the Main Points of the plan what the maximum pace is for downloading.

^c Transaction at a service station of the license owner or a transaction in peddling, as defined in the Consumer Protection Law, 5741-1981 or a transaction by way of a telephone call or a internet transaction.

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- (3f) The manner in which speech service and text messages are provided after exhausting the entire monthly Units Quota for these services – termination of service until the end of the bill period or the continued supply of the services and charging the subscriber according to rates set forth by the license owner in the framework of the plan.
- (4) Description of all goods purchased or leased during the performance of the contract and their overall price, and if agreed between the subscriber and the license owner as to the installment payment for the goods – the rate of each payment. If the goods were provided as a gift, it shall be explicitly stated.
- (5) Information regarding the cancelation of any benefit as a result of transferring to another rate plan.
- (6) The method of calculation of the amount the subscriber will be required to pay for a breach of the commitment, as this term is defined in section 56A.1.
- (7) With respect to a business subscriber – information on rate increases during the commitment period, if this possibility exists under the terms of the contract, including the date and amount of such increase.
- (8) Information on the balance of any payment for end-equipment that was purchased from the Licensee in a previous contract.
- (9) The Licensee's undertaking to pay to a subscriber of another cellular licensee who has become a subscriber of the Licensee, the payment such subscriber will be required to make to the other cellular licensee for the breach of his commitment to that cellular licensee, and the manner of spreading such payment.

In this regard, "**commitment**" – as this term is defined in section 56A.1.

- (10) The declaration of a subscriber, according to which he read the Main Points of the Agreement document, and he received it at the time of the execution of the agreement. The declaration shall state the details of the representatives on behalf of the license owner who executed the contract and the original signature of the subscriber shall appear at the end of the Main Points of the Plan.
 - (11) Respecting subsection (a)(1) to (10) – "Subscriber" is any person who entered into an agreement with the Licensee for receipt of cellular mobile radio telephone services for up to twenty five telephone numbers, excluding a Pre-Paid Subscriber.^{A59}
 - (12) A Split Business Subscriber" shall sign the Main Points of the Plan.
 - (13) A license owner shall not include in the Main Points of the Plan information or additional details beyond those listed in this Section, unless they are data in NIS or NIS per consumption unit, which may directly affect the monthly account limit of the subscriber.
 - (14) The rates of all services and payments, as specified in sub-section (3), (3b), (3c) (4) and (5) shall be presented in a chart with two columns – "Description of the Service / Benefit / Credit / Goods / Payment" and "Rate for the Service / Amount of Benefit / Credit / Payment."
- (a1)^{A58} (1) A separate, printed page, on which the subscriber will be required to mark his choice as to the accessibility of any telephone number to which the contract relates, to services as set out in Appendix E2 (hereinafter – **the Access to Services Form** or **the form**) and to sign at the bottom of the form A59; The form will be adjacent to the Main Points of the Plan.

^{A59} Amendment No. 59

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

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- (2) A new subscriber who did not mark his choice regarding a certain service, blocked or open, in the place intended therefor on the form, his receipt of that service shall be blocked. A new subscriber who did not sign at the bottom of the form shall be blocked of all services appearing on the form.

In this section, "New Subscriber" – a subscriber who contracted with the license owner after 15 Tevet, 5777 (May 11, 2017).

- (3) A subscriber may request the Licensee at any time, orally in a human respond only or in writing, to change his accessibility to services specified in the form (hereinafter in this section – **the subscriber's request**). A first change will be made free of charge. The Licensee will implement the subscriber's request only after it has identified the subscriber. The license owner shall keep the application, as stated, and make it available for delivery or transfer to the manager, at his request, within five (5) business days from the application submission date.

The subscriber's request must be implemented within one working day^{A59} from the date of the request.

- (4) The Licensee will include in the next telephone bill after the date of the subscriber's request a notice concerning the implementation of the request and the date of implementation. The license owner shall keep the telephone bill, as stated, and make it available for delivery or transfer to the manager, at his request, within five (5) business days from the bill preparation date.

- (5) The Licensee shall attach to the form two (2) immediate telephone statements sent after September 13, 2011 (14 Ellul, 5771) to a Subscriber who is not a new Subscriber^{A59}.

- (5) (A) A Subscriber who is not a new Subscriber who failed to transfer to the Licensee his comments on the form by December 13, 2011 (17 Kislev, 5772) will be blocked from receiving the services set forth in section 3 of the form within seven (7) working days of the aforesaid date;

(B) Notwithstanding that stated, where a non-new subscriber has not used the services set out in Section 3 of the form starting November 1, 2011 (4 Heshvan 5772) and has not submitted to the Licensee a response to the form by December 1, 2011 (5 Kislev 5772), the Licensee may block his access to said services as of December 1, 2011 (5 Kislev 5772)^{A64};

(C) A non-new subscriber who has submitted to the Licensee a response to the form, will have his access to services blocked or opened in accordance with his request in the form, within one workday of the request's receipt^{A62};

(D) A Subscriber who transferred to the Licensee his comments on the form and failed to mark his Selection and signed alongside the service appearing on the form as stated in subsection (1) shall be blocked from receiving such service^{A59}.

(E) The license owner shall block the access to services provided according to Section 2(e) on the form for access to services from any existing subscriber who did not choose it explicitly by completing the form, in the "open" option for these services within seven (7) business days after 15 Tevet, 5777 (May 11, 2017).

(6A) The Licensee will notify the subscriber about the block in the next telephone bill after the block. The license owner shall keep the telephone bill, as stated, and make it available for delivery or transfer to the manager, at his request, within five (5) business days from the bill preparation date.

(6B) Should the subscriber state his choices on the form for access to services, the license owner shall act in accordance with the choices of the subscriber immediately after the form was delivered to it.

(6C) A subscriber shall be required to complete a new form for access to services for any transfer from one rate plan to another only if his existing form is not the format of the form presented in Appendix E'2

^{A59} Amendment No. 59

^{A59} Amendment No. 59

^{A59} Amendment No. 59

^{A64} Amendment No. 64

^{A62} Amendment No. 62

^{A59} Amendment No. 59

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(7) The Licensee will publish the form on its website, within seven (7) work days from September 13, 2011 (14 Ellul, 5771)^{A59}.

(7a) Should the Manager instruct to amend the version of the form for access to services, the License Owner shall publish the updated form for access to services on its website within the time period set forth by the Manager from the date of signing the amendment to the license.

(8) Respecting subsection (a1)(1) to (6) – "Subscriber" - excluding a Pre-Paid Subscriber. Notwithstanding the above, the Licensee shall block services at the request of a Pre-Paid Subscriber, to the extent that it comes from a telephone number to which the request refers, or such Subscriber presented before it the end-equipment serving the telephone number forming the subject matter of the request, or in any other manner to the Licensee's satisfaction A59.

(9) If it is a Split Business Subscriber, only he shall complete the form for access to services and sign it, and only he may amend it.

(a2) Terms of the service to the subscriber, including quality measures for customer and subscriber service as detailed in section 2 in Addendum E;

(b) Terms for disconnecting from the Licensee's services or discontinuation of all service^{A58} terms;

(c) Licensee's rates for the services for which the subscriber registered, as of the day of the agreement, including the date and terms for termination of the rates program;

(d) Limitation on the rate of arrears interest, linkage differences and collection expenses, as stated in section 80.3;

(e) Condition for changing the rate for the service for which the subscriber registered, as stated in section 78.1;

(f) The details set out in sections 61 and 61A regarding the public ombudsman and umpire.

(g) Condition specifying that in case of a contradiction between the provisions relating to the rates and to the basket of services detailed in the contract, and the provisions of the license in this regard, the provisions of the license shall prevail;

(h) Notice concerning the Director's authority to instruct the Licensee to modify the contract, and a clarification that the subscriber's engagement with the Licensee under the contract constitutes agreement to such modification.

55.5^{A58} Where a contract is executed in the presence of the Licensee's representative and the subscriber, the Licensee will act as follows:

(A) The license owner's representative shall perform a reliable identification of the applicant according to the procedure set forth by the license owner. The license owner shall keep a copy of the identification card of the applicant and a copy of the identification card of the payer of the bill, which was provided to the license owner's representative when the contract was executed.

^{A59} Amendment No. 59

^{A59} Amendment No. 59

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

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- (A1) Prior to executing the contract, the Licensee's representative will present to the person requesting to be a subscriber a printed copy of the contract, and will allow him to peruse the contract.
- (b) When executing the contract, the applicant and the Licensee's representative must affix their original signature to the contract that was given to the applicant for perusal. Following such signature, the Licensee's representative will give the subscriber a copy of the contract bearing the original signatures of the Licensee's representative and the subscriber.
- (c) After that stated in subsections (a) and (b) has been done, the Licensee's representative may require the subscriber to sign an identical contract to the one signed with original signatures, by electronic means.
- (d) The Licensee must keep in its possession a signed copy of the contract and make it available for delivery or transfer to the Manager, at his request, within five (5) business days from the contracting date.
- (e) Should the subscriber request to make a change in the terms of the contract, including a request to replace the existing plan with a new plan, to receive an additional service, to expand a service, or to join a service package – he will be given, at the time of the request for the change, a printed notice bearing the Licensee's name or logo, noting the time of submitting the application, the details of the change that was made, its effective date and the full name of the Licensee's representative and the subscriber together with their original signatures. The license owner may not amend, as stated, including replacing an existing plan with a new plan without receiving the explicit consent of the subscriber as detailed above.

The license owner shall keep the signed notice, as stated, and make it available for delivery or transfer to the manager, at his request, within five (5) business days from the submission of the application.

55.6 cancelled.

55.7^{A70} Notwithstanding the provisions of Section 55.5, the Licensee may have a subscriber sign an engagement agreement also through an Electronic Graphic Signature, in lieu of an original signature, and the provisions of appendix E shall apply in this regard in lieu of the provisions of Section 55.5.

For this purpose, "**Electronic Graphic Signature**" – A signature which is saved electronically as a graphic file."

55A.^{A58} **Remote Sales Transaction**

55.1a In a remote sales transaction, as defined in Section 14c to the Consumer Protection Law, 5741-1981, executed over the telephone, the license owner shall act as follows:

- (a) The license owner shall record the telephone conversation that took place between the applicant and the license owner's representative;
- (b) During the sales call and before the applicant consented to contract with the license owner, the representative of the license owner shall request the consent of the applicant to send by email or text message or facsimile, the Main Points of the Plan and the form for access to services, and shall state to him that he will be requested to confirm in writing that he accepts the terms of the contract agreement as a condition for its entering into force. If the applicant explicitly states that he is not interested in receiving said documents by one of the said three methods during the sales call, the license owner shall be exempt from sending them to the applicant during the sales call, and they shall be sent to him together with other instructions of the contract terms document on the date the transaction was executed. If the applicant requests to receive the said documents by one of the methods mentioned above, the representative of the license owner shall send them to him by way of the method he requested during the sales call.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A69} Amendment No. 69

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- (c) On the form for access to services sent by email or text message, every service shall be marked in a computerized manner as "blocked" or as "open", as the applicant chose during said telephone call.
- (d) In the email or text message, the applicant shall be requested to confirm the execution of the transaction and the markings as presented in the form for access to service. The applicant shall explicitly confirm the terms of the transaction, without any handwritten conditions or reservations or modifications regarding the terms of the contract terms document by way of return email or return text message, which shall include his full name and identification number.
- (e) If the applicant requested to receive the Main Points of the Plan and the form for access to services by facsimile, the license owner's representative shall send said documents by facsimile, whose number shall be provided to the license owner's representative during the call.

The applicant shall explicitly confirm the terms of the transaction, without any handwriting conditions or reservations or modifications regarding the terms of said documents, in his handwriting on the markings and signatures on the Main Points of the Plan and on the form for access to services, and shall send the said two documents by facsimile to the facsimile number which the license owner's representative provided to him during their conversation.

The license owner shall send the other instructions of the contract terms document by regular mail on the date the transaction was executed.

- (f) The remotes sales transaction shall be completed and shall enter into force, and the license owner may charge the applicant in accordance with its terms only after the license owner receives the return notice of the applicant by email or text message, confirming the execution of the contract agreement or the said documents by facsimile, marked and signed as required.
- (g) The license owner shall keep the following in his possession:
 - (1) The telephone conversation recording between the applicant and the license owner's representative;
 - (2) The email or text message which the license owner sent the applicant, including the Main Points of the Plan and the form for access to services attached thereto;
 - (3) The email or text message confirming the execution of the transaction, which the applicant send to the license owner in reply to the email or text message sent by the license owner to the applicant, when they are presented in a row;
 - (4) If the transaction was executed by facsimile, it shall keep the Main Points of the Plan, bearing the handwritten signature of the applicant and the form for access to services, bearing the handwritten markings and signature of the applicant;
 - (5) The other instructions of the contract terms document, updated to the date of the execution of the contract with the applicant.
- (h) The license owner shall make the recording and the documents specified in Section (g) available for delivery or transfer to the manager, at his request, and within five (5) business days from the entry of the transaction into force.
- (i) The rules specified in this section shall also apply in regards to a modification in the existing plan or replacement of the existing plan with a new plan.

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In regards to this section, "Modification" – receipt of an additional service, expansion of service, joining a service package.

The license owner may not modify, including replacing an existing plan with a new plan, without receiving the explicit consent of the subscriber in a manner specified in Section 60.6(b).

- (j) Notwithstanding the above, where a Subscriber requested to make a change which does not involve an extension of the term of undertaking of the Subscriber or the creation of such a term, the Licensee shall include in the immediate telephone statement to the date of the request a notice in which the particulars specified in subsection (b) shall be noted, except for the name of the Licensee's representative. For the purpose of this subsection, "undertaking" is within the meaning in section 56.1A of the License.

55.2a In a remote sales transaction, as defined in Section 14c of the Consumer Protection Law, 5741-1981, executed over the internet, the license owner shall act as follows:

- (a) In the publication of the rate plan on its website, the license owner shall explicitly include all details specified in sub-section 55.4(a2) to 55.4(h) and the Main Points of the Plan and form for access to services.
- (b) In the registration process for rate plan, as stated, the license owner shall include a presentation of the Main Points of the Plan to the applicant as well as a box which the applicant shall be required to mark prior to the completion of the registration, as stated, and its marking shall constitute a declaration that he had read the information included in the Main Points of the Plan. If the marking is not made, as stated. the registration will not be able to be completed.
- (c) In the registration process for rate plan, as stated, the license owner shall include the online form for access to services, which the applicant shall be able to mark and to retrieve it at any time, and to modify its markings as he wishes.
- (d) The license owner shall send a copy of the contract terms document to the subscriber who executed the "remote sales" transaction by internet immediately after the completion of the performance of the transaction. A copy of the contracting agreement executed between the subscriber and the license owner shall be sent to the subscriber by email, which shall include the contracting agreement as an attached file.
- (e) The license owner shall keep the contacting terms document, as stated, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date of completion of the transaction by the subscriber.
- (f) The rules specified in this section shall also apply in regards to a modification in the existing plan or replacement of the existing plan with a new plan.

In regards to this section, "Modification" – receipt of an additional service, expansion of service, joining a service package.

The license owner may not modify, including replacing an existing plan with a new plan, without receiving the explicit consent of the subscriber in a manner specified in Section 60.6(b).

56. A43) Modification of Contract

56.1 The Director may instruct the Licensee to modify the contract, after giving the Licensee sufficient opportunity to present its case.

56.2 If the contract was amended pursuant to the Director's instructions or pursuant to a decision of the Standard Contracts Court, in the event that the contract was submitted for its approval, the engagement between the Licensee and the subscriber will be in accordance with the amended contract, as from the date of the amendment.

56.3 The provisions of section 55 shall apply, *mutatis mutandis*, to an amendment of the wording of the contract by the Licensee.

56A.^{T47)} Period of Commitment under a Contract

56A.1 Where the Licensee entered with a subscriber who is not a business subscriber into a contract that includes a commitment, the period of the commitment may not exceed eighteen (18) months.

In this regard, "**commitment**," – the subscriber's commitment to comply with conditions relating to the scope of consumption of services, the amount of the payment or the payment terms, during a defined period, where noncompliance with such conditions during such period entails a payment, including the return of a benefit or an exit fee.

56A.2 Where the Licensee proposed to a subscriber who is not a business subscriber to enter into a contract that includes a commitment, the Licensee will present to such subscriber a proposal to enter into a contract that does not include a commitment, as a reasonable alternative to contracts that include a commitment. In this regard, a contract containing a "prepaid" plan will not be deemed a reasonable alternative to a plan that includes a commitment. The Licensee will publish on its website the contract that does not include a commitment, including the Plan Summary Page of such contract ^{A58}.

56A.3 If the Director finds that the Licensee has violated Section 56A.2, he may direct the Licensee to modify conditions in a contract that does not include a commitment, without thereby derogating from any other power established in the License or in any law. In this regard, the Director will consider, *inter alia*, the number of subscribers of the Licensee who are signed on contracts that do not include a commitment.

57. ^{A43)} **Void.**

58. ^{A43)} **Void.**

59. Obligation of Connecting Applicants and Prohibition on Stipulation

59.1 If the Licensee has met the terms for operating a Cellular System as stated in Section 44.2, the Licensee will connect any applicant to the cellular network no later than the date set in the contract with the subscriber, unless the Director has authorized the Licensee not to connect the applicant, under circumstances he deems justified. ^{A2)}

59.2 The Licensee may not stipulate the connection of an applicant on unreasonable, discriminatory or unfair terms, and without derogating from the generality of the foregoing:

The Licensee may not require a subscriber to purchase end-user equipment from it or from its designee;

The Licensee may not require the subscriber to receive maintenance services from it for the end-user equipment in the subscriber's possession;

The Licensee may not stipulate or condition cellular services, service conditions or a rate on the purchase of cellular end-user equipment from it or from any other.

59.3 Void. ^{A1)}

^{T47)} Amendment No. 47.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

Part B: Service Level for Subscribers

60.^{A16)} Obligation of Maintaining the Service

- 60.1 The Licensee will put at the disposal of its subscribers all the services detailed in the First Schedule, in accordance with the terms detailed in the schedule, and will maintain all its services all year round, around the clock, both in times of calm and in times of an emergency, subject to Section 48, in accordance with the technical requirements and service quality requirements, in a proper and regular fashion, and of a quality no lower than that indicated by the service quality indexes specified in the first schedule to the license and in Addendum E to the Second Schedule to the license. In the event of a contradiction between the First Schedule and Addendum E to the license's Second Schedule, the provisions of Addendum E to the Second Schedule will prevail.
- 60.2 Without derogating from that stated in Section 75.3, the Licensee will provide cellular services and a service package, as this term is defined in Section 73A, to every applicant, under equal and non-discriminatory terms and at a non-discriminatory rate.
- 60.3 If the Director has found that the service package is liable to harm competition or the consumers, he will notify the Licensee thereof, indicating the date by which the Licensee must stop offering its subscribers the service package.
- 60.4 If the Licensee provides any cellular service to any person or organization, for payment, the service must be available to any subscriber throughout the network coverage area, complying with the minimal requirements as regards service quality, without discrimination, within 24 months of the date of commencing provision of the service for payment.
- 60.5 The Director may, at the written request of the Licensee, allow the Licensee limitations on the provision of Section 60.4, after being convinced that there is a real difficulty in providing the service to anyone that requests it, and that the specific features of the service possess a unique and exceptional flavor justifying this.

60.6^{A43)}

- (a) The license owner shall not supply or expand, with or without consideration, any of its services which the subscriber did not explicitly request to receive or expand, with the exception of a services provided free of charge to all subscribers, and shall not all the supply or expansion of services of a service provider that the subscriber did not explicit request the receipt or expansion thereof from the license owner.

In regards to this section, "Service Provider" – whomever provides a service by way of the network, and the payment for the service is made by the telephone bill.

- (b) ^{A58} An explicit request may be made by one of the following ways:

- (1) By a document signed by the subscriber and sent to the Licensee;
- (2) By an email message sent by the subscriber to the Licensee;
- (3) In a phone call between the subscriber and the Licensee's representative;
- (4) By an SMS message sent from the subscriber to the Licensee;
- (5) By ordering a service on the website of the Licensee or a service provider. Ordering of the service shall be done in accordance with the provisions of Appendix F to the License.^{A61}
- (6) A session with the representative of the license owner by way of the internet ("CHAT");

- (c) The Licensee will keep documentation on the subscriber's explicit request. The documentation must be kept available by the License owner for presenting to the Director within five (5) work days from the day of the subscriber's explicit request.

In this regard – "**documentation**":

For purposes of subsection (b)(1) – a copy of the document;

For purposes of subsection (b)(2) – a printout of the email message;

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A61} Amendment No. 61

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For purposes of subsection (b)(3) – a recording of the phone call;

For purposes of subsection (b)(4) – a copy of the subscriber's telephone bill in which the details of the SMS and a printout of its content as received by the system of the license owner sent by the subscriber appear in the "itemized list of calls."

For purposes of subsection (b)(5) – a log printout from the Licensee's short message service center (SMSC⁴), detailing the fact of the sending of the two SMS messages from the Licensee to the subscriber during the service ordering process. If the service was ordered on the Licensee's website or on its cellular portal by means of a user code and password as stated in section 1.3 in Appendix F to the License – a log printout from the SMSC testifying to the execution of the service ordering process, and a log printout of the log-in of the user code and password by the subscriber^{A61}.

For purposes of subsection (b)(6) - printout of the internet chat;

A memorandum entered by the Licensee's representative in the Licensee's information systems does not constitute documentation.

60.7^{A63} Without derogating from that stated in section 26.3, the Licensee may not discontinue the provision of cellular services through a system that has become technologically obsolete, until after that stated in Appendix K-1 is fulfilled.

60.7^{A58} The Licensee may not collect payment from a subscriber for a service or its increase, unless it has documentation on the subscriber's explicit request to receive the service or its increase.

60.8^{A58} A subscriber who was debited for a service or for its increase and notifies the Licensee that he did not request to receive or to increase the service, will be refunded the full amount collected from him as payment for the service or for the increase, where the Licensee has no documentation on the subscriber's explicit request to receive or to increase the service. The subscriber's contestations and the refund will be handled in accordance with the provisions on "excess charges" in section 83A of the License.

61.^{A43} Public Ombudsman

61.1 The ombudsman shall be directly subordinate to the CEO of the license owner or the Board of Directors, including one of the committees of the Board of Directors.

61.2 Subject to the provisions of Section 61a regarding "dispute resolution", the roles and authorities of the ombudsman are:

- (a) To review complaints of subscribers and applicants regarding the services of the license owner;
- (b) To review complaints of subscribers regarding bills which the license owner submitted to them and to make a decision in their regard;
- (c) To review differences of opinion which arose between the license owner and a subscriber regarding the interpretation or performance of the contracting agreement and to make a decision in their regard;

61.3 The license owner shall place on its website in a prominent place and in a prominent manner a link named "ombudsman"⁵. Clicking on said link shall lead to a landing page in which the roles and authorities of the ombudsman shall be specified, as well as the four (4) options for sending a complaint thereto as follows:

- (a) Regular mail;

⁴ Short Message Service Center.

^{A61} Amendment No. 61

^{A63} Amendment No. 63 - Mistake in the original language

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

- (b) Email;
 - (c) Online form on the website of the license owner, to which various files can be attached;
 - (d) Facsimile.
- 61.4 The license owner shall specify in each bill it submits to the subscriber the roles and authorities of the ombudsman and the address, facsimile number and email, by which the subscriber way send a written complaint to it.
- 61.5 The license owner shall notify in its website and on each bill its submits to the subscriber, in regards to each of the four (4) options specified above, the details which the subscriber is required to complete in the framework of the complaint he intends to send.
- 61.6 Once a complaint is sent to the ombudsman by email or by online form, an automatic conformation notice regarding its acceptance shall be sent to the subscriber immediately after the receipt of the complaint. The confirmation notice shall include the number which the license owner's system gave the complaint, the date of receipt of the complaint, the content of the complaint as sent by the subscriber and the time period no later thereof a written response to the complaint shall be provided.
- 61.7 The license owner shall keep a copy of the complaint and the written response sent to the subscriber, and shall make them available for delivery or transfer to the manager, at his request, within five (5) business days from the date of receipt of the complaint and from the date of delivery of the response.
- 61A. Umpiring of Disputes**
- 61A.1 The contract will stipulate that any disagreements arising between the Licensee and a subscriber in connection with the interpretation or performance of the contract, shall be submitted for clarification to the Licensee's Public Ombudsman.
- 61A.2 The contract will specify that an application to the Public Ombudsman under section 61A.1 shall not:
- (a) Prevent the subscriber *a priori* from bringing his case before a competent court;
 - (b) Derogate from the Licensee's authority to act in accordance with the provisions of section 72 regarding the discontinuation of all service^{A58} or disconnection of a service owing to a breach of the contract.
- 62. Obligation of Maintenance**
- 62.1 The Licensee is responsible for the maintenance of the Cellular System.
- 62.2 If a subscriber purchased cellular end-user equipment from the Licensee or from its designee, and the purchase agreement included maintenance services, the Licensee^{A43)} will be responsible for the maintenance of said purchased end-user equipment, however the Licensee^{A43)} will not be responsible for the maintenance of said purchased end-user equipment beyond the maintenance period undertaken by the manufacturer, unless agreed otherwise between it and the subscriber.^{A2)}
- If, in order to receive cellular services, the subscriber used cellular end-user equipment not purchased from the Licensee or from its designee, the Licensee is not obligated to look out for the maintenance of this end-user equipment, but may enter into an agreement with the subscriber for providing maintenance services also for said equipment.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

63.^{A56} **Call Center**

63.1 The Licensee will operate a manned call center for receiving calls of its subscribers. The Licensee will also operate additional means that allow its subscribers to turn to it for information and inquiries, all as set forth in Appendix E to the License.

63.2 The call center will be manned by skilled and professional personnel, having the appropriate competence for handling calls, and if a complaint has been received regarding a malfunction that led to termination of all cellular services to a subscriber, said personnel will act immediately to localize the malfunction and start taking steps to immediately correct it.

63.3 The Licensee will specify in the maintenance log the details of the malfunction, as stated in section 63.2, and the steps taken to correct it, all as stated in section 51

64. End-user equipment – Selling and Renting

The Licensee may sell or rent out to its subscribers cellular end-user equipment for the purpose of linkup to the Cellular System, provided it complies with the following:

- (a) The Licensee has notified the subscriber that he may purchase cellular end-user equipment from any licensed marketer and that he does not have to buy the equipment from the Licensee in order to receive cellular services;
- (b) The Licensee will not stipulate the provision of maintenance services for cellular end-user equipment on the very receipt of cellular services from the Licensee, and will notify the subscriber that he may receive maintenance service for end-user equipment, from any person, including the end-user equipment purchased or rented from the Licensee.
- (c) During the sales call by telephone call for the purchase or lease of MTS end user equipment, without executing a transaction for the purchase of MTS services (hereinafter – "Purchase Agreement") with the applicant, and before the applicant expresses his consent to enter into a Purchase Agreement with the license owner, the license owner's representative shall request the approval of the applicant to send him by email or text message or facsimile, a printed Purchase Agreement, without handwritten modifications, with the logo of the license owner, specifying the description of the end user equipment and its overall price, and if it was agreed between the purchase and the license owner in regards to payment in installments for the end user equipment – the number of payments and the rate of each payment, including the date of the sales call and the details of the purchase and the license owner's representative, and shall inform him that he shall be required to confirm in writing that he accepts the terms of the Purchase Agreement as a condition of its entry into force. If the applicant explicitly states that he is not interested in received said document by one of the said three methods during the sales call, the license owner shall be exempt from sending them to the applicant during the sales call, and it shall be sent on the date the transaction was executed. If the applicant requests to receive the said documents by one of the methods mentioned above, the representative of the license owner shall send them to him by way of the method he requested.

The license owner shall keep a copy of the Purchase Agreement and make it available for delivery or transfer to the manager, at his request, and within five (5) business days from the date the transaction was executed.

The license owner shall also record the telephone conversation which took place with the applicant, and shall make the recording available for delivery or transfer to the manager, at his request, and within five (5) business days from the date the transaction was executed.

^{A56} Amendment No. 56

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- (d) In a notice that shall be sent to the applicant, he shall be requested to confirm the execution of the transaction. The applicant shall explicitly confirm the terms of the transaction without any handwriting conditions or reservations or modifications regarding the terms of the Purchasing Agreement by way of a return email or return text message or facsimile, which shall include his full name and his identification number.

The license owner shall keep a copy the purchaser's confirmation and make it available for delivery or transfer to the manager, at his request, and within five (5) business days from the date the transaction was executed.

- (e) Immediately after the delivery of confirmation by the applicant, as stated, the license owner shall send him in the manner in which the Purchase Agreement was sent, a document by law⁶.
- (f) When executing a transaction in the presence of two parties for the purchase of MTS end user equipment, without executing a transaction for the purchase of MTS services, and before the applicant expresses his consent to execute a Purchase Agreement with the license owner, the license owner's representative shall forward to the applicant a printed copy of the Purchase Agreement prior to the purchase, and shall allow him to review it.

Upon the execution of the transaction, the applicant and the license owner's representative shall sign the Purchase Agreement, which was forwarded to the applicant for his review, with original signatures.

After signing, as stated, the license owner's representative shall deliver the Purchase Agreement to the applicant, on which the original signatures of the license owner's representative and the applicant appear, as well as the document stated in sub-section (e).

After performing the aforementioned in this sub-section, the license owner's representative may have the applicant sign an identical Purchase Agreement to the one signed with original signatures while using electronic means.

The license owner shall keep the Purchase Agreement and the document stated in sub-section (e), and shall make it available for delivery or transfer to the manager, at his request, and within five (5) business days from the date the transaction was executed.

The license owner's representative shall perform a reliable identification of the applicant according to the procedure set forth by the license owner. The license owner shall keep a copy of the identification card of the applicant and a copy of the identification card of the payer of the bill, which was provided to the license owner's representative when the contract was executed.

- (g) If the subscriber and the license owner agreed on payment in installments for goods the subscriber purchased or leased from it, and the subscriber breached the contract agreement before all payments were made for the said goods, however the breach was remedied within forty five (45) days from the date the license owner informed the subscriber of the breach, the license owner may not charge the subscriber the remaining payments for the goods in one payment, and the payment in installments shall continue as agreed between the subscriber and the license owner from the start.

65. Public Emergency Services

65.1^{A21}) The Licensee will enable, anytime and at no charge, for all its subscribers, free and rapid access to public emergency services such as: Magen David Adom, the Israel Police and the Fire Station.

65.2^{A42}) Starting from April 5, 2007 ("the inception day") the Licensee will enable the call centers of the public emergency systems⁸ to identify the telephone number of a subscriber calling them^h, anytime and at no charge, including a subscriber with a confidential telephone number, a subscriber who blocked his number before the call and a subscriber calling from a private exchange.

^f Tax invoice / receipt

^g Israel Police – 100, Magen David Adom – 101, Fire Station - 102

^h Excluding a subscriber that his end user equipment permits dialing only to the call centers of the public emergency systems, such as a non SIM card cellphone in a GSM network

The Licensee may do the aforesaid through a licensee that routes the call to the public emergency system.

Not later than two days before the inception day^{A44)} the Licensee will notify all its subscribers, clearly, in writing, that starting from the inception day it will be possible for the call centers of the public emergency systems to identify the subscriber's telephone number, and it will notify in writing any subscriber requesting a "confidential number" – that the number is not confidential with respect to calls to the call centers of the public emergency systems.

65A^{A21)} Blocking Service to a Nuisance Subscriber

- 65.1A Notwithstanding that stated in Section 65.1, the Licensee will block a nuisance subscriber's access to the public emergency service. If blockage of public emergency service alone is not technically possible, then the Licensee will block the nuisance subscriber's access to all the cellular services. As regards this section, a "**nuisance subscriber**" denotes a subscriber who has contacted a certain emergency center, for no justifiable reason, more than 10 times during one whole day, using the end-user equipment in his possession.
- 65.2A A notice regarding a nuisance subscriber will be submitted in writing to the Licensee by a senior employee in the public emergency service (hereinafter – the employee) and will be corroborated by an affidavit signed by the employee (hereinafter – the complaint). The complaint will include, inter alia, the name of the nuisance subscriber, his telephone number, insofar as these are known to the complainant, as well as a specification of the contact times of the nuisance subscriber, and the content of the call showing that the contact was made without any justifiable reason. If the complaint does not include the telephone number of the nuisance subscriber, the Licensee will act in a reasonable fashion, to identify the nuisance subscriber based on the data provided in the complaint.
- 65.3A The Licensee will block the nuisance subscriber's access to the emergency service as stated in Section 65.1A, after giving the nuisance subscriber advance warning. The notice will be given 3 workdays before the date of service blockage, in one of the following ways:
- A. A phone call from a service center of the Licensee to the cellphone end-equipment of the subscriber;
 - B. An SMS message sent to the cellphone end-equipment of the subscriber;
 - C. Delivery of a registered letter to the subscriber, except for one who is a prepaid subscriber and his address is unknown.
- 65.4A Blockage of service to a nuisance subscriber who is a prepaid subscriber whose address is unknown will be done no later than one full day from the time of receiving a complaint or identification as stated in Section 65.2A.
- 65.5A Notwithstanding that stated in Section 65.1A, the Licensee will not block the public emergency service to a subscriber, if the circumstances of contacting, as these emerge from the explanation given by the subscriber to the Licensee, show that the contacting was justified and that he should not be deemed a nuisance subscriber. The Licensee will forward to the Director, within 10 workdays from the date of receiving the complaint or the identification as stated in Section 65.2A, the arguments for not blocking the nuisance subscriber.
- 65.6A In the event it blocked the nuisance subscriber's access to emergency calls, the Licensee may collect from the subscriber all his debts, and may also collect payment from him for removing the block.

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- 65.7A The Licensee may remove the block once the nuisance subscriber has given it a written undertaking not to repeat his nuisance calls in the future.
- 65.8A The Licensee will keep records of how the nuisance subscriber was identified, how the notice was given to the nuisance subscriber, or, alternatively, in a case where a notice was not given the nuisance subscriber, the reasoning for not giving the notice. Likewise, a record will be kept concerning the removal of the block.
- 65.9A The Licensee will specify, in the framework of the nuisance subscribers report as stated in Section 104(B)^{A43}, the number of nuisance subscribers whose access to the public emergency service or to all the cellular services was blocked under this section, and the subscribers for whom said block was removed, as well as the number of subscribers that were not blocked under this section and the reasons for this.

65.B “Personal Message” Service^{A75}

- 65.1B The license holder will provide a personal message service (in this section: the “**Service**”), at any time and free of charge, to all of its subscribers, including to subscribers of another license holder, owners of end equipment which supports the Service (in this section: “**Subscribers**”), and in accordance with the “personal message” service file.

For purposes of this section:

“**Another License Holder**” – another Cellular license holder who receives service through national roaming or a cellular license holder on another network which receives service through a hosting agreement on the license holder’s network;

“**Personal Message**” – A short instruction, notification and warning of the Defense Agencies, sent immediately, selectively and in a focused manner to subscribers with CMR end equipment which supports use of cell broadcast (“CB”) technology.

“**Defense Agencies**” – Representatives of the Ministry of Defense and the Home Front Command which are responsible for the personal message system;

“**“Personal Message” Service File**” – A service file approved by the Director, including amendments that shall be made to the service file.

- 65.2B For the purpose of performance of the provisions of Section 65.1B, the license holder shall act as stated in the First Schedule and in the service file regarding this Service and as follows:
- (a) Adaptation of the network and its components so as to support the provision of a personal message service, with the exception of the network components operating with iDEN or CDMA technology;
 - (b) Assistance and allocation of resources for the performance of work to connect the Defense Agencies’ personal message system to the network;
 - (c) Operation and maintenance of the components of the Service on the network, according to written instructions that shall be presented to the Defense Agencies; without derogating from the aforesaid, the Defense Agencies may instruct the license holder to modify such instructions, but the same does not derogate from the license holder’s responsibility for the repair and connection of the network;
 - (d) Performance of technical trials to examine the integration between the system and the network and carrying out drills of the operation of the network and the system, in accordance with the instructions of the Ministry and the Defense Agencies.
- 65.3B The license holder shall report to the Defense Agencies on any gap in the capability to provide the Service, and will act to restore capability as soon as possible, in accordance with written operation procedures that shall be formulated thereby and presented to the Defense Agencies.

Without derogating from the aforesaid, the Defense Agencies may instruct the license holders to modify the operation procedures, should it find them lacking, although such an instruction does not derogate from the license holder’s responsibility as stated above.

- 65.4B The license holder shall notify the Defense Agencies in advance of any change in the network which may affect availability to provide the Service.
- 65.5B The license holder shall not make commercial use of the CB function without the Defense Agencies' knowledge, at least 30 days in advance before operation of the Service, and the Defense Agencies may notify it, in writing, within 15 days, of its objection to provision of the Service or conditions to provision of the Service as aforesaid, in which case, the license holder will not operate the Service, or may operate the same only according to the conditions determined by the Defense Agencies, as the case may be.

The aforesaid does not obviate the license holder's obligation to receive the Director's approval for the Service as aforesaid.

- 65.6B The license holder will assist in launching the Service to its subscribers in all of the following ways:
- (a) By written information on the company's website;
 - (b) By direct marketing to subscribers through the monthly invoice upon the launch of the Service;
 - (c) By responding to subscribers' requests to select the definitions required in his cellular end equipment. With respect to cellular end equipment models which were not marketed by the license holder, the license holder will make a reasonable effort to provide a solution for such subscribers;
 - (d) The license holder will allow the Defense Agencies to make reasonable use of its existing distribution channels for the purpose of informing the subscribers of the Service.

66.^{A16)} Protecting Subscriber Privacy

- 66.1 Without derogating from the provisions of the Law, The Wiretapping Law, 1979, The Privacy Protection Law, 1981, or any other law concerning the safeguarding of an individual's privacy, the Licensee may not wiretap the telephone or any other communication of the subscriber without the written permission of the subscriber, except for the purpose of controlling the quality and standard of the service or for preventing frauds.
- 66.2 Subject to that stated in Section 66A, the Licensee, its workers, agents and designees may not disclose lists or documents containing the name and address of a subscriber or any other information pertaining to him, including account details, phone call traffic, call durations and destinations, to any person whatsoever except to the subscriber or to anyone empowered by the subscriber for this purpose.
- 66.3 Notwithstanding that stated in Section 66.2, the Licensee may do the following:
- (A) To give the subscriber's details to another licensee for the purpose of collecting monies owed him by the subscriber in respect of services it provided him through the network, provided that the information relayed is necessary for collecting monies and preparing bills, and the other licensee has undertaken to safeguard the subscribers' privacy;
 - (B) To transfer a subscribers' details to another, insofar as the particulars are in its possession, by lawful authority.

66A.^{T3)} Special Services for the Security Forces

- (A) The Licensee will provide special services to the security forces as detailed in the classified security addendum attached to the license as Addendum I and in the classified security addendum attached to the license as Addendum L^{A12)}.
- (A1)^{A12)} The Licensee will enable the security forces, regarding which the Director informed in writing, to realize, subject to any law, their powers with respect to any telecommunications activity in the framework of the license, and will be responsible for the maintenance, proper functioning, and technological adaptation of the equipment and infrastructure required for realizing said execution capability, all in coordination with the security forces, as detailed in Addenda I and L. The security forces will bear the payment under the provisions of Section 13 of the Law.

^{T3)} Amendment No. 3

- (B) The Licensee will see to it that Addenda I and L are guarded ^{A12)} in accordance with the provisions of the procedure for safeguarding records to be laid down by the Licensee in conjunction with the security officer of the "General Security Service."
- (C) The Licensee will be exempt from the duty of indemnification toward the State, by virtue of the provisions of Section 91.2 of the general license and/or by virtue of any law, in respect of the very execution of the special services for the security forces.

66B.^{A12)} Security Provisions

- (A) The Licensee will appoint a security supervisor in accordance with the provisions of the Security Arrangement in Public Bodies Law, 1998, and rigorously follow the security provisions detailed in the Addendum M to the license.
- (B) The Licensee will establish appropriate provisions in the incorporation documents and in its regulations, and will act in such manner so that only a person who meets the conditions set out below will be appointed and serve in a position or function enumerated in Addendum M to the license:
 - (1) An Israeli citizen, as this term is defined in the Citizenship Law, 1952, and a resident of Israel;
 - (2) Was given security clearance by the General Security Service, by which there is no prevention to his serving as stated.
- (C) The Licensee will act to safeguard the secrecy of the security forces' operations, and act according to the security directives of those same security forces, including in the matter of the appropriate security classification for officers and holders of important functions working for the Licensee, and compartmentalization of knowledge pertaining to activities involving the security forces.
- (D) The Licensee will take the measures necessary to protect the network, its components and the databases used for providing services, and for operating and controlling the network in the face of activities carried out by unauthorized entities, according to the provisions detailed in Addendum M to the license.

67. Bills to Subscribers

67.1^{A16)} A bill that the Licensee submits to the subscriber should be clear, succinct, readable and understandable. The bill should contain an accurate breakdown of the components of the payment required according to the types of payments and the rules specified in Chapter F.

67.2 Void ^{A58}.

67.3 The Licensee may collect payments for his services from the subscriber through another, including through Bezeq.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

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THE BINDING VERSION IS THE HEBREW VERSION

- 67.4^{A34} (A) Without derogating from the rest of the license provisions pertaining to the manner of preparing the bill for the subscriber and to the manner of debiting, the Licensee will act in compliance with Israel Standard 5262, concerning debiting credibility and due disclosure in telephone bills (hereinafter – "the Standard").
- (B) cancelled.
- (C) Notwithstanding that stated in subsection (A) -
- (1) Regarding the provision in Section 2.2.2 of the Standard, the rounding off method will apply as follows:
- (a) An amount in the bill will be rounded off to the nearest amount ending in two digits after the decimal point of the shekel, with an amount ending in five tenths of an agora (three digits after the decimal point) to be rounded up.
- (b) An amount to be paid for a single call will be rounded off to the nearest amount ending in two digits after the decimal point of the shekel, with an amount ending in five tenths of an agora (three digits after the decimal point) to be rounded up.
- (2) cancelled.
- (3) The price of a phone call (voice) that includes a changing rate, will be presented in the bill submitted to the subscriber as an average price per minute, computed by dividing the payment amount for that same call by the its total number of minutes.
- In this paragraph, "changing rate" denotes a rate that varies in the course of the call according to various criteria, such as a rate that diminishes with increasing consumption, or a rate that varies due to a transition from a "peak period" to a "slack period" in the course of the call or vice versa.
- (4) In addition to that stated in the provision of the last part of Section 2.2.4 of the Standard regarding service packages, the bill will contain a breakdown of the services included in the package, along with the overall rate paid for the package as a whole.
- In this paragraph, "service package" denotes several services marketed to the subscriber as a single package, in return for an overall rate (and without a breakdown of the payment for each component separately).
- (D) (1) Chapter B in the Standard concerning due disclosure in telephone bills will come into effect no later than Friday, October 14, 2005.
- (2) Chapter C in the Standard regarding debiting credibility will come into effect no later than Sunday, January 14, 2006.

67.5^{T52} A bill submitted to a private subscriber and a split Business Subscriber shall also be drawn up according to the provisions of Appendix E 1 (hereinafter referred to in this section as the "**Private Subscriber Billing Format**").

67A.5^{A58} A bill submitted to a business subscriber will include the same details as in subsections 9b(1) to 9b(4) in Appendix E1 to the License.

In this section, '**business subscriber**' – excluding the subscribers specified in subsections (b) and (d) of the definition of 'business subscriber' in section 1 of the License.

^{T52} Amendment No. 52.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

67.6^{T52} A business subscriber may request that the licensee furnish him with a telephone bill in Private Subscriber Billing Format (hereinafter referred to in this section as a "Request"). Where a subscriber has requested as aforesaid, the licensee shall begin to send him the bill according to the aforesaid format by no later than the expiration of two billing periods after the date of the Request. The licensee shall publish once every six months a notice in the telephone bill submitted to the business subscriber according to which the business subscriber may demand that the licensee draw up the telephone bill submitted to him according to the Private Subscriber Billing Format. A business subscriber may also request from the Licensee a written explanation regarding the method of calculating a 'onetime debit.' The Licensee will submit to the business subscriber such written explanation regarding a 'onetime debit' within thirty (30) days from when the subscriber submitted a request in the matter to the customer service center or to the public ombudsman ^{A58}.

67.7 The subscriber shall receive a bill, at his choice, by one of the following methods:

- (a) Regular mail;
- (b) Email with an attached file;
- (c) Text message with an attached link;
- (d) The website of the license owner;
- (e) Other electronic means at the choice of the license owner.

The license owner shall present the said five (5) methods for the choice of the subscriber in the framework of the form for access to services. If the subscriber does not choose one of the methods, the bill shall be sent to him by regular mail. The subscriber may, at any time, modify the method in which he shall receive the bill by oral or written request.

The license owner shall document the request of the subscriber, as stated, and shall make this documentation available for delivery or transfer to the manager, at his request, and within five (5) business days from the date of submission of the request.

If the subscriber submits the request during the first half of the bill period, the license owner shall send him the bill following the date of the request in the manner the subscriber requested. Otherwise, the license owner shall send the bill to the subscriber after the following bill in the manner the subscriber requested.

The license owner may not request from the subscriber any payment for the issuance of the bill, including a "call details" from any date, which was sent to the subscriber at his request regularly or on a one-time basis, only in the event that the bill was received by the subscriber as specified in sub-section (a).

67.8 ^{A58} If the payment specified in the telephone bill is made by standing order or credit card, the payment will not be executed before the expiry of ten (10) days from the day on which the telephone bill was sent to the subscriber.

^{T52}) Amendment No. 52.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

- 67.9 The license owner may act, in regards to sending the bill to a subscriber who receives the bill by regular mail, as specified below:
- (A) The license owner shall send each subscriber, as stated, a separate letter by regular mail or message by email, in which he shall be required to choose, within thirty (30) days from the date of delivery of the letter or the message, the manner in which the monthly bill shall be sent to him from the following methods:
 - (1) Regular mail;
 - (2) Email with an attached file;
 - (3) Text message with an attached link;
 - (4) The website of the license owner;
 - (5) Other electronic means at the choice of the license owner.
 - (B) The license owner shall allow each subscriber, as stated, to reply to the request addressed to him by regular mail, free of charge, and by email and facsimile.
 - (C) The license owner is obligated to use at least two electronic means from those specified in sub-section (a) above.
 - (D) The license owner shall make reference to the business subscriber and to the Split Business Subscriber in a framed message in bold and with a 16 font size at least, and if he does not choose the method in which to receive the bill, the bill shall be sent to him by the method set forth by the license owner, and without derogating from the provisions of section 13b(a) of the Consumer Protection Law, 5741-1981.
 - (E) The license owner shall state in the reference to the Private Subscriber in bold and with a 16 font size at least, that if he shall not choose a method to receive the bill, the bill shall be delivered to him by regular mail.
 - (F) The license owner may not deliver the bill by text message to end user equipment that is blocked from receiving text messages and to end user equipment that is not a smartphone.
 - (G) The license owner may not modify the method in which to deliver the bill to a Private Subscriber who did not respond to the reference which the license owner sent to him.
 - (H) If the method of delivery of the bill to the subscriber is modified, the license owner shall send notice to the subscriber before sending the first bill by the new method by way of a text message, informing him of the modification details. A subscriber who is blocked from receiving text messages shall receive said notice in the bill following the modification.

67A.^{A16)} Information Service for Clarifying Telephone Numbers^{T39)}

- 67.1A Without derogating from the provisions of Section 66, the Licensee will provide, by itself or through another on its behalf, an information service for clarifying the telephone number of anyone who is a subscriber of a NDO or of a Cellular System operator, excluding an ID-restricted subscriber (hereinafter – "information service"), as follows:
- (A) For the general public and at no charge, via a website through which the service will be provided;
 - (B) For its subscribers, at a reasonable price, via a phone center, the access to which will be effected by means of a network access code set by the Director;
 - (C) The information service will be given through each of the aforesaid means based on the same information characteristics to be provided by the subscriber applying to receive the service.
- 67.2A cancelled.
- 67.3A In addition to that stated in Section 67.1A, the Licensee may offer, at a reasonable price, by itself or through another on its behalf, an information service, by any other means, including by means of a national access code or by means of an SMS.

^{A39)} Amendment No. 39

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

67.4A In order to execute that stated in Subsections 67.1A and 67.3A:

- (A) The Licensee may send a query on its behalf to any database of a NDO or cellular system operator (hereinafter – "another licensee"), or to receive information from the database of another licensee by any other method and with the consent of the other licensee, all subject to the duty of safeguarding the subscriber's privacy;
- (B) In order for an information service to be provided by another licensee under its general license, the Licensee will enable any other licensee access to the Licensee's database;
- (C) The Licensee will update the database on a regular basis, so that each name, address or telephone number of a subscriber that was added, altered or removed, will be updated in the database within one workday following execution of the update in the Licensee's system being used to provide telephony services.

As regards this section –

"Database" denotes a collection of data including the name, address and telephone number of any subscriber that is not ID-restricted, including a subscriber that is a business.

- 67.5A (A) The Licensee will request the consent of each new subscriber for including his details in the database. If the subscriber gives his consent, the Licensee will include his details in the database.
- (B) The Licensee will grant the first request of any subscriber who wishes to remain ID-restricted, free of charge.

In this subsection, a "new subscriber" denotes a subscriber who has signed a contract with the Licensee after the commencement date as stated in Section 67.7A.

- 67.6A (A) The terms for providing an information service for clarifying telephone numbers, given under Section 67A, will be established by the Licensee, provided they are fair and non-discriminatory, including as regards the order of the data presented to the user of the service. The service will be given twenty four (24) hours a day, all year round, except for Yom Kippur. In this subsection, "order of the data presented" – Insofar as the answer to the service user's query comprises several different data, the requested data will be presented to the service user in random order.
- (B) cancelled.
- (C) An information service for clarifying telephone numbers as stated in Section 67.1A(B) and an information service using a phone center, the access to which is effected by means of a national access code as stated in Section 67.3A, will comply with the service indexes specified below:
- (1) At any time, in the event of a heavy service call load⁶, the number of inquirers receiving service should not be less than 90%;
 - (2) The average waiting period of a caller until the start of receiving service⁷ should not exceed 30 seconds;
 - (3) The maximum waiting period for a caller until the start of receiving the service should not exceed 60 seconds.

67.7A Section 67A will go into effect on February 8, 2007, except for Subsection 67.1A(a), which will go into effect on March 15, 2007 ("the commencement date"), and except for Section 67.2A^{A45}, which will go into effect at the time of signing this amendment.

67.8A The Licensee, by itself or through another, including together with another licensee, will advertise the information service for clarifying telephone numbers given free of charge by the Licensee ("Free Information Service"). The advertising should include at least the following:

- (A) The Licensee's website;

⁶ Busy Hour Call Attempts

⁷ Start of receiving service – the beginning of the response by a center operator or of an IVR system, which ask the inquirer for the information needed to find the requested phone number and the like.

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- (B) Each telephone bill of the subscriber.
- (C) At least four (4) times during the first year following the commencement date, the Licensee will run large, prominent ads in at least the 3 largest Hebrew language newspapers, and in the largest newspaper in Arabic, in English and in Russian, as well as in the largest economic newspaper. These ads will include no other information. The first ad in all the aforesaid newspapers, except for the economic newspaper, will be on the first Friday after the commencement date or on the following one, and in the economic newspaper it will run on the first Tuesday after the commencement date or on the following one, regarding the free information services.

Without derogating from the foregoing, the Director may instruct the Licensee regarding the manner and format for advertising the information services.

67B.^{A43} Void.

67C.^{A16} Service Dossier

- 67C.1 If the Licensee wishes to operate a service included in the list of services in the First Schedule and marked "future", it must notify the Director of this in writing not later than thirty (30) days before the date on which it plans to begin providing the service.
- 67C.2 If the Licensee wishes to operate a service not included in the list of services in the First Schedule which it intends to provide to any recipient of its services, it must notify the Director of this in writing not later than thirty (30) days before the intended date for commencement of provision of the new service.
- 67C.3 The Director will notify the Licensee within thirty (30) days of the date of receipt of the Licensee's notice as stated in sections 67C.1 and 67C.2, whether it is allowed to commence provision of the service or whether it must submit a service dossier for the Director's approval, as a condition for commencement of the service.
- 67C.4 The Licensee will submit a service dossier for the Director's approval, at his request; If the Licensee fails to submit a service dossier as instructed by the Director, or if the Director does not approve the service dossier, the Licensee shall not commence provision of the service.
- 67C.5 The Director will give a decision regarding the service dossier that was submitted to him within sixty (60) days from when the Licensee has submitted to the Director all the documents and information requested by him for the purpose of approving the service dossier. In special cases, the Director may extend the times set in this section, by a written, explanatory notice to be given to the Licensee.
- 67C.6 The Director may require the Licensee to submit for his approval a service dossier for an existing service regarding which no service dossier was previously required, and he may require the Licensee to submit for his approval a new service dossier for a service regarding which a service dossier was approved in the past.
- 67C.7 The service dossier will be submitted to the Director in the format and at the time specified by the Director and will include, *inter alia*, the following: the name of the service; a detailed description of the service and the manner in which it is provided; the service rate, and an engineering description, all as set out in the First Schedule; The Director may give instructions on additional matters which are to be included in the service dossier.
- 67C.8 If the service dossier is approved, the Licensee will provide the service according to the terms of the approved dossier, and the approved service dossier will be deemed an integral part of the license.
- 67C.9 The Licensee will advertise an approved service dossier, with details and in the manner specified by the Director, and the Director may advertise it himself, provided he does not do so until after the Licensee has begun providing the service. The advertising will not include information comprising a trade secret, which was identified as such by the Licensee and attached to the service dossier as a separate addendum marked as a trade secret.

67C.10 Any new service which the Licensee begins to provide pursuant to this section will be deemed a part of the First Schedule; The Director will update the First Schedule from time to time.

67C.11 The provisions of this section will apply, *mutatis mutandis*, to a trial using the Licensee's network.

67D.^{A24} Erotic Service

An erotic service provided through the network, will be provided in accordance with the provisions of Addendum O in the Second Schedule.

As regards this section –

"Erotic service" – as defined in Section 1 of Addendum O in the Second Schedule.

67D1 Premium Service^{A81}

67.1D1 The license holder may provide premium services in one of the following two ways:

- (1) A premium service, the payment for which is charged according to a premium tariff and is collected through the telephone bill, shall be provided according to the provisions of Annex P;
- (2) A premium service, the payment for which is charged according to a regular tariff (in this subsection: the "Service"), will be provided as follows:
 - (a) As an inter-network service through a network access code;
 - (b) By dialing a landline number, access to which will be enabled for every subscriber of a general license holder's subscriber.

For purposes of this section:

"**Landline Number**" – A numbering format of geographic numbers and landline national numbers or a numbering format of an asterisk and four digits (*XXXX), as defined in the numbering plan.

"**Premium Service**" and "**Regular Tariff**" as defined in Annex P."

67E.^{T60} Domestic Roaming

67E.1 The Licensee provide by means of its network to a roaming licensee a domestic roaming service for the subscribers of the roaming to the network of the host operator, as set forth below.

67E.2 Licensee's preparations

^{A60} Amendment No. 60

^{A81} Amendment No. 81

The Licensee shall prepare for the implementation of domestic roaming in accordance with all of the following:

- (a) The provisions of Appendix C, in the Second Schedule.
- (b) The provisions of the Law and the License concerning provision of the possibility of utilization of its network, and specifically sections 30 to 30C of the License, *mutatis mutandis*.

67E.3 Operating arrangement

- (a) If a roaming licensee notifies the Licensee, after notifying the Minister of its failure to reach agreement with any existing licensees on the conditions for the provision of roaming services as stated in section 5B(b)(1) of the Law, that it has chosen the Licensee for the receipt of domestic roaming services (in this subsection "**notice**"), the Licensee and the roaming operator shall forward to the Director the engineering and operating details agreed between them with respect to the implementation of domestic roaming ("**operating arrangement**"), within three months from the date of sending of the notice. In addition, said operators shall include engineering or operating details as required for maintaining domestic roaming, which were not included in the operating arrangement due to disagreements, should any arise.
- (b) Matters in disagreement as stated in paragraph (a) above, should there be any, shall be decided by the Director. The Director's instructions in this regard shall form an integral part of the operating arrangement.

67E.4 Starting date for implementation of domestic roaming

A host licensee shall begin providing domestic roaming services in accordance with the operating arrangement no later than three months after the date on which the roaming licensee presented to the host licensee the Minister's approval as stated in section 5B(b)(2) of the Law.

67F.^{A66} International roaming service through a network of a mobile phone operator in a neighboring country

- 67F.1 The license holder will act so as that in an area in which there is reception which allows an proper call to be made, both from the network and from a network of a mobile phone operator in a neighboring country, the subscriber will receive mobile phone service through the network. The license holder will perform the action itself, without the need for any action on the part of the subscriber.
- 67F.2 The license holder will block the possibility of a subscriber receiving international roaming service through a network of a mobile phone operator in a neighboring country (the "**Service**"), unless the subscriber shall have explicitly requested to receive the Service, and after it shall have been explained to him that in the framework of receipt of the Service, the terminal equipment in his possession may unintentionally roam near the border with a neighboring country, to a mobile phone network in a neighboring country, and he shall have been given information regarding the Service tariffs; if a subscriber requests to receive the Service as aforesaid:
 - (a) The license holder will explain to him how he is able to choose, manually, through the terminal equipment in his possession, the mobile phone network from which he shall receive the Service;
 - (b) The license holder will allow the subscriber to choose whether to block access to receipt of a data communications service through a mobile phone network of a neighboring country.

^{A66} Amendment No. 66

67F.3 In this section, "**Neighboring Country**" - Jordan and Egypt;

"**Proper Call**" - A call made according to the minimum reception definitions set forth in international standards according to which the network operates.

67G. ^{A67} Offensive content and sites

67G.1 The license holder will notify its subscribers of offensive sites and offensive content, as defined in Section 4.i of the law, as stated in Section 4.i(b)(1) of the law; such notice shall be given in the manner set forth in Section 4.i(c) of the law.

67G.2 The license holder will notify its subscribers of the existence of content on the internet which is inappropriate for children and youth (for example pornographic sites), and will include a specification of the ways in which the access of children and youth to such content may be blocked; such notice shall be given in all of the ways listed in Section 4.i(c) of the law.

67G.3 The license holder will offer its subscribers, in all of the ways listed in Section 4.i(c) of the law, an effective service to filter offensive sites and offensive content, for no charge additional to the payment it collects from him for the internet access service, all as stated in Section 4.i(d) of the law, provided that such service shall be based on an analysis of the information and not according to a "black list" of sites only.

Part C: Termination Of Service Or Its Disconnection Or Termination Of The Contract

68. Definitions

In this part –

"**Cancellation of Service**" - permanent disconnection of one of the services of the license owner for all subscribers"

"**Discontinuation of Service**" - temporary termination of one of the services of the license owner or of all services of the license owner provided to the subscriber;

"**Disconnection of Service**" - permanent disconnection of one of the services of the license owner provided to the subscriber;

"**Termination of Service**" - Disconnection of all services of the license owner provided to the subscriber, and cancelation of the contracting agreement with him."

69. Prohibition on the Termination or Disconnection of Service

The Licensee may not terminate or disconnect cellular system services and other services, which the Licensee must provide under this license, unless that stated in this part is fulfilled, or that stated in Section 48.

69a. Prohibition on Termination of Service

The license owner is not allowed to terminate mobile telephone services or other services, that The license owner is obligated to provide under this License, unless the following in this part or in section 48 occurs.

69b. Discontinuation of Service at the Request of the Subscriber

69.1b A subscriber may request from the license owner to discontinue any one of the services of the license owner, once per year, for a period of not less than thirty (30) days, and which shall not exceed ninety (90) days.

^{A67} Amendment No. 67

- 69.2b A subscriber may submit a request to discontinue service by the following methods:
- (a) In writing, including by regular mail, facsimile, email or online form on the website of the license owner, to which various files may be attached, and the license owner may permit the submission of requests by online chat.
 - (b) Orally, by calling the call center or at the service station of the license owner;
- 69.3b The license owner shall document the request of the subscriber and shall make this documentation available for delivery or transfer to the manager, at his request, and within five (5) business days from the date of submission of the request.
- 69.4b The license owner shall discontinue services, disconnect services or terminate services no later than the business day following the date in which the request was submitted; if the subscriber stated a future date from the discontinuation of service, disconnection of service or termination of contract, the license owner shall fulfill the request on the date stated by the subscriber.
- 69.5b The license owner shall document the date (date and time) in which the subscriber's request was made in its information systems.
- 69.6b Once service is discontinued for a subscriber, the license owner shall renew the provision of the service no later than the business day following the date in which the request was submitted unless the subscriber requested a later date for the renewal of the provision of the service.
- 69.7b if the subscriber requests to discontinue any of the services of the license owner, the license owner shall preserve the telephone number for the subscriber for the entire discontinuation period, and shall not transfer it to another.
- 69.8b The license owner may not charge the subscriber payment for the discontinuation of service, for its renewal, and may not charge the subscriber payment for the discontinuation period of all of its services.
- 69.9b Following the renewal of the provision of the service to the subscriber, the license owner shall charge the subscriber according to the rates of the plan and its terms, according to which the subscriber was charged prior to the discontinuation of the service unless the rates for the plan and its terms were modified during the discontinuation period for all of the subscribers of that plan.

69c. Disconnection of Service at the Request of the Subscriber

- 69.1c A subscriber may request the license owner to disconnect a service; the subscriber may make his request in writing or orally, as stated in Section 69.2b.
- 69.2c The provisions of Sections 69.3b until 69.5b above shall apply to the disconnection at the request of the subscriber, and the license owner may not charge the subscriber for the disconnection of the service.

69d. Termination of Contract at the Request of the Subscriber

69.1d A subscriber may notify the license owner of the termination of the contract between them; the subscriber may make his notice in writing or orally, as stated in Section 69.2b.

69.2d The provisions of Sections 69.3b until 69.5b above shall apply to the termination of the contract at the request of the subscriber.

69.3d The license owner shall send the subscriber notice regarding the termination of the contract within two business days from the date the subscriber requested the termination of the contract. The notice shall include, inter alia, the date on which the termination of the contract was made and the last date of delivery of the last final bill, referring to the last bill period of his subscription with the license owner ("Final Bill").

69.4d A subscriber who terminated his contract with the license owner shall receive a Final Bill as soon as possible, and no later than two months from the date of termination of the contract.

The Final Bill shall state the date on which the termination of the contract was made, and it shall be titled "Final Bill".

69.5d Nothing in the provisions of this section may derogate from the termination of the contract by way of the mobility of numbers in accordance with the numbering plan regarding mobility of numbers – combine version dated August 22, 2005, and its amendments.

69e. Preserving a Telephone Number upon the Termination of Contract

69.1e Once a contract is terminated between the license owner and a subscriber, whether initiated by the license owner or by the subscriber, the license owner shall preserve, free of charge and without conditions or restrictions, the telephone number for the subscriber, shall not transfer it to another and shall not return it to the number database intended for allotment for a period of fourteen (14) days from the date of termination of the contract.

69.2e If the subscriber requests to receive back his telephone number within the said time period, the license owner shall immediately fulfill the request of the subscriber, and may charge the subscriber for the time period between the termination and the renewal of that telephone number that was returned to him according to the rate plan which the subscriber had before the termination of the contract, and continue charging him according to said rate plan.

69f. Discontinuation of Service or its Disconnection or Termination of Contract – General Provisions

69.1f The license owner shall set forth in his website, in a prominent place and in a prominent manner, a link named "Discontinuation / Disconnection of Service"ⁱ, clicking thereon shall refer to the three following options:

(a) Discontinuation of service;

(b) Disconnection of service;

(c) Termination of contract.

69.2f The license owner shall present the following details in each one of the three options:

(a) A short explanation regarding the option chosen;

ⁱ A link named "Contact Us" shall not be considered a replacement for said link.

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- (b) Methods of contact regarding the submission of a request in each of the said methods, including telephone number, address, facsimile number, email address, online form and internet chat, if the license owner chooses this methods, in which the subscriber may submit the request as stated;
- (c) The details which the subscriber is required to state in the framework of his request, including the telephone number, subject of the request, the identification number of the subscriber, the last four (4) digits of the method of payment, email address, provided that the subscriber makes use of email to submit his request, and the date which the subscriber determined for the performance of his request;
- (d) The date on which the request of the subscriber shall be fulfilled, the date on which the billing on the phone bill shall terminate and the date on which the Final Bill shall be sent to the subscriber in the event of termination of the contract.

- 69.3f The license owner shall publish in each telephone bill the telephone number, address, facsimile number and email address, by which the subscriber may submit said requests.
- 69.4f If the subscriber submitted his request by way of email, the license owner shall send a return email immediately upon the receipt of the request, confirming the receipt of the request. The email shall include the number determined for the request of the subscriber in the system of the license owner, the date of receipt of the request and the content of the request, as was sent by the subscriber.
- 69.5f If the subscriber submitted his request by way of an online form, the license owner shall present on the screen of the equipment through which the online form was sent (computer or appropriate MTS end user equipment), notice confirming the receipt of the request; the notice shall include the details specified in Section 69.4f.
- 69.6f If the request of the subscriber, which was submitted by way of an online form, included any detail of those specified in subsection 69.2(c) being incorrect, the license owner shall mark the incorrect detail on the online form and the subscriber shall be requested to re-deliver the request with the correct detail.

70. cancelled

71. cancelled.

71A.^{T48)} Blocking of Cellular End-User Equipment

- 71A.1 The license owner shall maintain in its MTS system the identification number of the end user equipment (IMEI – International Mobile Equipment Identity) that the subscriber made use of, with the exception of the MTS end user equipment operating with IDEN technology (hereinafter in this Section – "**End User Equipment**").
 - (a) On the date of delivery of the cellular end-user equipment to the subscriber, on the date of contracting with the subscriber or on the date of renewal of the contract, including on the date of replacement, upgrading or repair of the cellular end-user equipment.
 - (b) In the case of cellular end-user equipment that was not provided to the subscriber by the Licensee, the Licensee will make reasonable efforts to bring to the subscriber's attention the possibility available to him of registering with the Licensee the identification number of such aforesaid cellular end-user equipment.

^{T48)} Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).

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(c) At the subscriber's request from the Licensee; the subscriber's request may be via the telephone, after the Licensee has verified the reliability of the request.

71A.2 If the subscriber notified the license owner that his End User Equipment was stolen or lost, the license owner shall do as follows:

- (a) During the call with the subscriber when he delivers his message, as stated, the license owner shall authenticate the identity of the subscriber.
- (b) The license owner shall raise before the subscriber the option of submitting a complaint at the police station for theft or loss of the End User Equipment.
- (c) The license owner shall request from the subscriber an alternate telephone number with which he can be contacted.
- (d) The license owner shall immediately and free of charge "discontinue the service" for all services provided for use, including international services, by blocking the smartcard of the subscriber, with the exception of incoming calls if the subscriber requested not to block these calls, immediately upon receipt of the notice regarding the theft or loss of the End User Equipment, and shall inform the subscriber in this regard.
- (e) Despite the aforementioned, the license owner shall "discontinue the service" free of charge for all MTS services provided to the subscriber, including incoming calls, after three (3) days from the date of receipt of the notice regarding theft or loss of the End User Equipment.
- (f) If the subscriber notified of theft or loss of the End User Equipment while he is abroad and receiving international roaming services, the license owner shall immediately and free of charge "discontinue the service" for all MTS services provided to the subscriber by blocking the smartcard of the subscriber, including incoming calls, unless the subscriber requested not to block these calls.
- (g) The license owner shall block the End User Equipment free of charge by blocking the identification number of said End User Equipment, as recently recorded on the MTS system of the license owner, immediately after twelve (12) hours had passed from the time of the subscriber's notice of the theft or loss of the End User Equipment. The license owner shall make it clear to the subscriber that upon receipt of his notice of the theft or loss of the End User Equipment, blocking the End User Equipment by blocking his identification number shall be performed at that time.
- (h) The license owner shall immediately and free of charge remove the blockage of the End User Equipment upon demand of an authorized factor. "**Authorized Factor**" for this Section is a police officer who obtained authority from a police officer with a Brigadier General ranking to contact the license owner and instruct it as to the removal of the blockage. The license owner shall make a special marking in its information system of the End User Equipment regarding which the "Authorized Factor" requested to remove the blockage, however it shall not provide any information regarding the removal of the blockage, as stated.

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- (i) The license owner shall re-block the End User Equipment after receiving the approval of the Authorized Factor.
- (j) The license owner shall renew the supply of all services to the subscriber immediately upon delivery of a new smartcard to the subscriber.
- (k) The license owner shall state on the telephone bill of the subscriber, following the date on which the subscriber's notice regarding the theft or loss of the End User Equipment was provided, or the telephone bill following that, the date and time of the subscriber's report, date and time of the discontinuation of the MTS services to said End User Equipment, as specified in Sections 71.2a(d) until 71.2a(f), and the date and time of performing the blockage of the End User Equipment, if the Equipment is not located.
- (l) The license owner shall preserve documentation of the telephone bill, which includes said notices, and shall make the documentation available for delivery or transfer to the manager, at his request, within five (5) business days from the issuance of the bill.
- (m) A license holder shall transfer daily to all the mobile phone operators, including the mobile phone operators in another network, and the licensed entity, a computerized file, which will include information with respect to all end equipment, the identification number of which has been blocked by it on the same day, all end equipment for which the blocked identification number was removed that day at the request of a subscriber, all end equipment for which the blocked identification number was removed that day at the request of a licensed entity, as well as all end equipment whose identification number was blocked anew with the authorization of the licensed entity, after the blocking was removed earlier at its request. The license holder shall send the aforesaid computerized file daily up to 11 p.m. with respect to all end equipment that has been blocked or that has had the blocking removed, as aforesaid, up until the time 11 p.m.
- (n) The license holder shall update in his information system on a daily basis up to the hour of 12 a.m. (midnight) the list of end equipment, which was blocked by the license holder that day and, in addition, shall update by 12 a.m. (midnight) of the same day the list of end equipment that was blocked by other mobile phone operators on that day, and with regard to which a report was delivered thereto by means of the computerized files that were sent thereto by the other mobile phone operators. The list shall include the following details with respect to all end equipment:
 - (1) Identification No. (IMEI);
 - (2) Name of manufacturer;
 - (3) End equipment model;
 - (4) Time at which blocking was implemented;
 - (5) Name of license holder that ordered the blocking to be implemented;
- (o) The license holder shall allow at any time the performance of a search on its Internet site in accordance with the Identification No. of the end equipment, whose Identification numbers were blocked due to a notice of theft or loss.

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(p) The license holder shall retain in his possession an updated list with the details as specified in sub-section (n) of all end equipment that has been blocked, and shall deliver it or transfer it to the manager on demand. The said list must be identical for all mobile phone operators.

(q) The license holder shall publicize on its Internet website the following information:

(1) Recommendations with respect to actions that the subscriber must take in the event that his end equipment is stolen or lost, including:

((a)) determination of a password for the prevention of use of the End User Equipment by anyone who is not authorized;

((b)) installation of applications on End User Equipment if it is a smartphone, with which the location of the End User Equipment can be located and which allow remote blocking of access to information on it or erasing it;

((c)) backing up on a computer or by way of cloud services of necessary information, such as: pictures, movies, list of contacts and email messages.

(2) The actions which the subscriber must take once he becomes aware of the theft or loss of the End User Equipment.

71A.3 The Licensee will provide details of end-user equipment that was blocked by it to any other cellular licensee, not later than the workday after implementing that stated in Section 71A.2.

71A.4 (a)^{T50} The Licensee may not provide cellular services to end-user equipment that was blocked by it or by another cellular licensee.

(b)^{T50} Notwithstanding that stated in Section 71A.2 and Subsection (a), if it is found that blocking the identification number will cause the discontinuation of service to other end-user equipment having the same identification number, the Licensee may abstain from implementing the block as stated.

71A.5 The Licensee will remove the block on end-user equipment that was blocked by it, after receiving a request^{T50} from the subscriber. Removal of the block will be done not later than one workday after the Licensee has verified the reliability of the request, unless the subscriber has specified a later date in his request^{T50}.

71A.6 The Licensee will publish to all its subscribers its obligations with respect to the possibility of blocking cellular end-user equipment, the procedure for registration of the identification number of cellular end-user equipment with the Licensee and the ways of communicating with it for the purpose of implementing the block. The publication will be made in at least the following ways:

(a) In the contract;

(b) On the Licensee's website;

(c) In a separate information sheet to be enclosed with the bill submitted to the subscriber, by January 30, 2009^{T50}.

^{T50} Amendment No. 50.

^{T50} Amendment No. 50

^{T50} Amendment No. 50

^{T50} Amendment No. 50

71A.7^{T50}) The Licensee will detail, in a half yearly report, the number of identification numbers that were blocked and the number of identification numbers in respect of which such block was removed, as well as the number of identification numbers that were not blocked pursuant to this section and the reasons therefor.

72. Termination or Disconnection of Service Due to Breach of Agreement

72.1 The Licensee^{A16)} may terminate or disconnect the service to a subscriber if one of the following is fulfilled:

- (A) The subscriber did not pay a payment he owes in respect of service he received, on the date set for its defrayal in his contract with the Licensee;
- (B) The subscriber breached a condition in the contract between him and the Licensee, which was established as a material condition;
- (C) The subscriber used unlawfully or allowed another to use as aforesaid the end-user equipment in his possession.

72.2 Service to a subscriber will not be terminated or disconnected in the cases detailed in Section 72.1(A) and (B), except after the Licensee gives the subscriber a notice in writing at least 10 days prior to the expected termination or disconnection date. The notice will state that the subscriber is being given an opportunity, within the time set in the notice, to rectify the act or default, in respect of which the service will be terminated or disconnected.

72.3^{T2)} Notwithstanding that stated in Section 72.2, the Licensee may terminate service to a subscriber without prior notice, if one of the following is fulfilled:

- (a) The subscriber did not pay, for the third time during the same year, the bill in respect of the payments he was charged for cellular services, on the date set therefor in the payment notice. In this paragraph, "year" – the period from January 1 to December 31;
- (b) There is a reasonable suspicion of a fraudulent act being committed through the subscriber's end-user equipment or using the features of the end-user equipment;

72.4^{T2)} The Licensee may disconnect service to a subscriber if it has found that the end-user equipment in the subscriber's possession, through which the subscriber receives cellular services, causes interference with the provision of cellular services to other subscribers or interference with the cellular system activity, provided that the Licensee gave the subscriber notice in writing at least 21 days prior to the expected disconnection date. The notice will specify the reason for the expected disconnection and state that the subscriber is being given an opportunity, within an amount of time to be set in the notice, to repair the end-user equipment in such manner as to prevent said interference.

72.5 If the license owner terminated all of its services due to a breach of agreement by the subscriber, the monthly or other fixed periodic payment collection from the subscriber shall discontinue on the date of discontinuation of service, as stated, until the date of renewal of supply of all services; during the bill period in which the discontinuation of service was made, as stated, the license owner shall charge the subscriber a fixed payment as specified in Section 74.3(c) or according to that specified in Section 74.3(d), as applicable.

^{T50)} Amendment No. 50

^{T50)} Amendment No. 50

^{T2)} Amendment No. 2 (due to a clerical error in the amendment, appeared as Section 71.3 instead of 72.3).

^{T2)} Amendment No. 2 (due to a clerical error in the amendment, appeared as Section 71.4 instead of 72.4).

72A.^{T48)} Discontinuation of Service to a Dormant Subscriber

72A.1 The License Owner may disconnect service for a dormant subscriber. If the Licensee wishes to discontinue service to a dormant subscriber, it must give the dormant subscriber prior notice of such intention, in the manner set out below (hereinafter in this section "**the notice**"). The time of discontinuation of the service may not be less than thirty (30) days after the date of sending of the notice.

72A.2 The Licensee will specify in the notice the telephone number in respect of which it intends to discontinue the service.

72A.3 The sending of a notice to a dormant subscriber will be done:

(a) With respect to a subscriber whose name and address are known to the Licensee, in each of the following ways:

(1) By a letter via regular post;

(2) By two SMS messages to be sent to the dormant subscriber at a difference of at least two weeks between the messages.

(b) With respect to a subscriber whose name and address are not known to the Licensee – by four SMS messages to be sent at a difference of at least one week between the messages.

(c) Notwithstanding that stated in Subsections (a)(2) and (b), if the subscriber's end-user equipment does not support the receipt of SMS messages, the Licensee will send the subscriber voice messages instead of SMS messages, insofar as the subscriber's end-user equipment supports the receipt of voice messages.

(d) The license owner shall preserve documentation regarding delivery of notice to a dormant subscriber as follows:

(1) A copy of the letter sent by regular mail;

(2) Printout from notebook server of message delivery, as specified in Section 60.6(c).

72A.4 The Licensee may not discontinue service to a dormant subscriber to whom a notice was sent, where the dormant subscriber has notified the Licensee that he does not wish the service to be discontinued. The subscriber may deliver such a message via the telephone or in writing, including by fax or by email.

Notwithstanding the aforesaid, the Licensee may discontinue service to a dormant subscriber who has notified it that he does not wish the service to be discontinued, after the subscriber was sent at least two notices, as stated in Section 72A.3 and 72A.5, and where in the second notice the Licensee has notified the subscriber that if within one year from the date of the second notice the subscriber does not make use of the cellular service, the subscription to the service will be discontinued, without delivery of further notice to the subscriber.

^{T48)} Amendment No. 48 (inception: this amendment will come into force on October 2, 2008).

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- 72A.5 The Licensee may not send the subscriber further notice concerning its wish to discontinue the service after one year has passed from the date on which the subscriber was sent the previous notice in that regard.
- 72A.6 The Licensee will keep the telephone number of a dormant subscriber to whom service was discontinued, during at least four months, without payment, from the date of discontinuation of the service, before the number is returned to the pool of telephone numbers of the Licensee itself or to another cellular licensee who originally allocated the number to the dormant subscriber. If during this period a written request is received from the subscriber to renew the service, the Licensee will renew the service upon the same terms as those that applied prior to the discontinuation of the service, free of charge.
- 72A.7 Where service was discontinued to a dormant prepaid subscriber who has a balance of the payment remaining to his credit, the Licensee will refund the appropriate balance within 30 days after receiving a written request from the subscriber who has proven that he is the owner of the line to which the service was discontinued, provided such request is received by the Licensee not later than six months after the date of discontinuation of the service.
- 72B.^{A68} **Disconnection of service due to recovery of the network in a fault event**
- 72B.1 The license holder may temporarily disconnect or limit services that it is obligated to provide due to the need to allow speedy recovery of the network in a material fault event.
- For this purpose, "**Material Fault**" – a fault which causes disconnection of service for 10% of the subscribers, or for 100,000 subscribers at least, whichever is lower.
- In this section, "**Subscriber**" – including a subscriber of a mobile phone license holder on another network and a subscriber of a roaming license holder using the network.
- 72B.2 The license holder will submit a detailed engineering procedure and process for recovery of the network in the event of a Material Fault (the "**Procedure**"), for the Director's approval, within 15 days from the date of signing of this Amendment.
- 72B.3 During a Material Fault, the license holder will act according to the Procedure that was submitted to the Director or which was approved by the Director, whichever is later.
- 72B.4 The Procedure will include, *inter alia*, initiated disconnection of service for subscribers who were not directly affected by the Material Fault, which shall begin two hours at most after the identification of a Material Fault, for the purpose of reduction of the load and controlled restoration of proper and regular service.
- 72B.5 Insofar as possible, the Procedure will allow preference to be given to the provision of proper and regular services to the armed forces, public emergency services and hospitals, as the Director shall determine."

^{A68} Amendment No. 68

73. Disconnection of Service Due to Maintenance Operations

73.1 The Licensee may temporarily disconnect or restrict services that it is obligated to provide (hereinafter – disconnection due to maintenance), if the need to carry out vital cellular system maintenance or setup operations necessitates this, provided the following are fulfilled:

- (A) The duration of the disconnection due to maintenance does not exceed twelve (12) consecutive hours;
- (B) The number of disconnections due to maintenance does not exceed two (2) during a single year;
- (C) Void.^{A2)}

73.2 The Director may ask the Licensee for a detailed explanation regarding the circumstances necessitating disconnection due to maintenance, and may ask the Licensee to postpone said disconnection if he came to the realization, after considering the Licensee's contentions, that a vital public interest necessitates such a postponement.

73.2 If due to the need to carry out vital maintenance or setup operations in the cellular system requires disconnection of service exceeding 12 hours, the Licensee will ask in advance for the Director's approval. The request will specify the maintenance operations required and the actions taken by the Licensee to speed up these operations and reduce, inasmuch as possible, the duration of the service disconnection.

73.3 Void. ^{A2)}

73.4 If disconnection or restriction of service is required urgently for the purpose of carrying out immediate, vital operations, the Licensee will notify the Director forthwith, including by phone, cable or fax, regarding the urgent disconnection or restriction. The Licensee will notify its subscribers about the aforesaid urgent disconnection or restriction, as early as possible, including via the public address system operating through the cellular system, insofar as this is possible, as well as through the public media.

73.5 Notwithstanding that stated in Sections 73.1 and 73.4, the Licensee does not have to notify the Director or the subscribers about disconnection due to maintenance, when the following are fulfilled:

- (A) The duration of the disconnection due to maintenance does not exceed half an hour;
- (B) Disconnection due to maintenance is being done between 24:00 Saturday night and 05:00 Sunday morning the following day.

Such a disconnection will not be counted in the number of disconnections as required under Section 73.1(B).

CHAPTER F – PAYMENT FOR SERVICES^(A5)

Part A – General

73A. Definitions

In this chapter –

- “**Licensee**” - Anyone to whom the Minister has granted, in accordance with the Law, a general or special license;
- “**Airtime**” - Duration of the time in which a subscriber receives cellular services, whether the connection is initiated by the subscriber or by someone else;

“**Airtime unit**”^{A57A31} - Time unit of 12 seconds at the most, but starting from Thursday, 1 January 2009, a time unit of 1 second.

“**Package of services**” - Several services sold to a subscriber as a package, for which a rate has been set as specified in section 75.2.

“**Public telecommunications network**” - Including an international telecommunications system.

“**Payment for completion of a call**” - Payment made by the initiator of a call which began on end-user equipment connected to one public telecommunications network and ended on another public telecommunications network, or on end-user equipment connected to such a public telecommunications network, for completing the call on the other public telecommunications network.

74. Payment Categories

74.1 ^{A57} The Licensee may collect from its subscribers payments for Cellular services, as follows:

- (a) A onetime installation fee for connecting mobile or portable end-user equipment held by the subscriber to the Cellular system (hereinafter – connection fee);
- (a1) Smartcard fee – one-time payment for a smartcard (SIM).
- (b) A fixed monthly ^{A57} payment;
- (c) Payment for airtime as specified in section 75A;
- (d) Payment for completion of a call as specified in section 75A;
- (e) Payment for basic telephone services, related services and value added services, detailed in the First Schedule to the License;

74.2 ^{A57} The Licensee may not collect from a subscriber:

- (a) Payment for establishing a call;
- (b) A minimum price for a call.

74.3 The license owner shall collect payments from the subscriber according with the following:

- a) in a One-Time Transaction, the payment for the services that are supposed to be provided in the framework thereof shall be Pre-Paid; the license owner may collect the entire payment in a transaction of this kind retroactively.
- b) in an Ongoing Transaction, the payment for the services provided in the framework thereof shall be Post-Paid, however the license holder may collect in an Ongoing Transaction Pre-Paid at the request of the subscriber, provided that the payment is made in cash by way of vouchers that will be issued to the subscriber by the license owner.

^{A57} Amendment No. 57 (Inception: This amendment will come into force on the day of signing the Amendment)

^{A57} Amendment No. 57 (Inception: This amendment will come into force on the day of signing the Amendment)

^{A57} Amendment No. 57 (Inception: This amendment will come into force on the day of signing the Amendment)

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- c) In a transaction as specified in sub-section (b), in the framework of which a monthly or other periodic payment was collected from the subscriber, as stated, for the Bill Period, during which the request of the subscriber to terminate the contract or discontinue all of its services, including during the performance of the mobility of the telephone number, the highest of the following:
- (1) The ratio between the number of days from the date of commencement of the Bill Period until the date of termination of the contract or the discontinuation date, as stated, at the time set forth by the subscriber in his request, or until one business day at the latest after the date of submission of the request for termination of the contract or discontinuation of all services of the license owner, if the subscriber did not set a date for the termination of the contract or the discontinuation, as stated, and between the number of days included in the Bill Period;
 - (2) The higher ratio between the services including in the service package between the amount of service units consumed from the date of commencement of the Bill Period until the date of termination of the contract or the date of discontinuation, as stated, or until one business day at the latest after the date of submission of the request for termination of the contract or discontinuation of all services of the license owner, if the subscriber did not set a date for the termination of the contract or the discontinuation, as stated, and between the number of units allotted for the Bill Period.
- (d) In a transaction as specified in sub-section (b), in the framework of which a monthly or other periodic payment was collected from the subscriber without a service package, the license owner shall charge the subscriber the fixed payment, as stated, for the Bill Period, during which the request of the subscriber to terminate the contract or discontinue its services, including during the performance of the mobility of the telephone number, as specified in Section 74.3(c)(1).
- (e) In a transaction as specified in sub-section (b), in the framework of which a monthly or other periodic payment was collected from the subscriber, the license owner may not collect any payment from the subscriber for the time period before the performance of the activation of the smartcard.
- (f) In a transaction as specified in sub-section (b), in the framework of which a monthly or other periodic payment was collected from the subscriber, following the transfer of a subscriber from one rate plan to another rate plan, the license owner shall charge the subscriber a fixed payment, as stated, for the period from the commencement of the Bill Period until the date of performance of the transaction, in accordance with the rate of the former rate plan, according to that specified in Section 74.3(c) or according to that specified in Section 74.3(d), as applicable, and for the period following the date of performance of the transaction until the date of completion of the Bill Period, based on the ratio between the number of days from the date following the date of performance of the transaction until the date of completion of the Bill Period and between the overall number of days in the Bill Period, according to the rate of the new rate plan.

Part B – Setting and Publication of Rates

Part B1 – Package Services in Israel

75. Setting the Rates and Their Amount

75.1 The Licensee shall fix a rate for every service and package of services provided by it to its subscribers, and it may determine the manner of linkage of the rate to the index. The Licensee shall notify the Director of the amount of each rate, before the rate comes into effect.

75.2 The Licensee may designate packages of services according to types of services included in the package or time periods or by any other method. The Licensee may set a separate rate for each of the services included in the package or set a general rate for the package.

75.3 The Licensee shall offer each package of services at equal terms and at a uniform rate according to categories of subscribers; For purposes of this section, "category of subscribers" – ^{A16)}a group of subscribers whose attributes provide reasonable justification for distinguishing it from another group.

75.4 The Licensee shall allow any subscriber, without discrimination, to switch from one package of services to another that is being offered by it at the time. The Licensee shall include such a provision in the contract with its subscribers. In the framework of this provision it may set times when it is permissible to make such a switch and it may set conditions, including payment terms, for implementing the switch.

75.5^{T49)} If the Licensee contracts with the subscriber in regard to a certain service or package of services, and the contract includes a commitment as defined in Section 56A.1 ("**commitment period**"), the following provisions will apply, with the exception of a business subscriber:

- (a) The terms of the contract, excluding the contract rates, will be final, known and fixed in advance for the entire commitment period.
- (b) The rate for each service will be fixed on the date of the contract and will be uniform and specified in shekels for the entire commitment period.

For purposes of this section, "**uniform**" – any rate before VAT which the subscriber is required to pay, as determined on the date of the contract, may not be increased during the commitment period.

Notwithstanding the aforesaid, the Licensee may provide its subscriber services at lower rates than those fixed in advance in the contract, during a limited time period, to all the subscribers or to a certain type of subscriber.

- (c) The Licensee will include provisions as stated above in the contract with the subscriber.

75.6 The Licensee may not condition a contract with a subscriber or a subscriber's switch from one package of service to another on the purchase of value added services or end-user equipment from the Licensee.

75.7 cancelled.

^{T49)} Amendment No. 49 (Inception: This amendment will come into force on December 31, 2008).

**TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION**

- 75.8 (a) The Licensee may not collect from a subscriber payment for a call when the call was not initiated by the subscriber (hereinafter – uninitiated call).
- (b) Notwithstanding that stated in subsection (a), the Licensee may collect from a subscriber payment for an uninitiated call in the following cases:
- (1) Call transferred to the subscriber by means of a roaming service;
 - (2) Collect call to which the subscriber has given his agreement;
 - (3) A call created by dialing a special prefix for a toll-free service that was allocated to the subscriber under an agreement with him^{A55};
 - (4) Void^{A51}
- (c) The licensee may collect from a subscriber initiating a call by dialing the following services or access codes, payment not exceeding the tariff collected by the licensee from a subscriber for a call whose destination is on a domestic operator network: ^{A51}
- (1) Split charge call service¹;
 - (2) Short number service for businesses²;
- (d) For a call to an international destination, the Licensee may receive only the payment imposed on the international operator, as determined in the Interconnection Regulations."^{A54}

75.9^{A18}) Inception

Void^{A55}

75.10 The payment for airtime will be determined in the manner set out below:

- (a) The payment for airtime will be determined according to an airtime unit^{A31}; For the purpose of calculating the payment, a part of an airtime unit shall be deemed the same as a whole airtime unit.
- (b) The payment for each airtime unit, at least during the first minute of contact, will be fixed.^{A57}

^{A55} Amendment No. 55 (Inception: This amendment will come into force on the day the relevant amendments to the Payment Regulations and to the Interconnection Regulations come into force, or on March 28, 2010 – whichever the later)

^{A51} Amendment No. 51 (Inception: This amendment will come into force on March 31, 2009)

^{A51} Amendment No. 51 (Inception: This amendment will come into force on March 31, 2009)

¹ Pursuant to the "split charge call" service file (1-700 service).

² Pursuant to the Administration Direction on "Short Form Dial for Businesses - Star (*) Plus Four Digits" dated May 4, 2008

^{A54} Amendment No. 54 (Inception: This amendment will come into force on the day the amendment to the Interconnection Regulations concerning a call from a cellular network to an international telecommunications network comes into force)

^{Inception} The inception of section 75.9 is on December 15, 2002.

^{A55} Amendment No. 55 (Inception: This amendment will come into force on the day the relevant amendments to the Payment Regulations and to the Interconnection Regulations come into force, or on March 28, 2010 – whichever the later)

^{A57} Amendment No. 57 (Inception: This amendment will come into force on the day of signing the Amendment)

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

- (c) The duration of the call for payment purposes is from the moment the connection is established between the subscriber who initiated the connection (hereinafter – the calling subscriber) and the subscriber receiving the call, until the moment when the call is terminated, which is the moment when an instruction to terminate the connection is received from the calling subscriber or from the subscriber receiving the call; The duration of the connection setup time, until the moment the connection is established, and the duration of the disconnection time, from the moment the instruction to terminate the connection is received until it is actually implemented, is not included in the count of the duration of the call.

In this regard, subscriber receiving the call – including a voice mailbox.

“**Voice mailbox**” – an installation or device forming part of the cellular system, designed to enable the calling subscriber to leave a voice message for the called subscriber^{A40}.

- (d) ^{A40} Regarding a call that is transferred to a voice mailbox, the Licensee shall play to the calling subscriber an introductory voice message, lasting at least 2 seconds (in this subsection – “**message**”), and will enable the calling subscriber, at his option, to disconnect the call without any debit, in the course of the message, or within a reasonable time being not less than one second after the end of the message (“**reasonable time**”). In such case, the moment of establishing the connection with the subscriber receiving the call, within the meaning of subsection (c) above, will be deemed to occur at the end of the reasonable time.

The wording of the message will be: “The call is being transferred to a voice mailbox,” and it will be articulated clearly and at a reasonable speed. In this subsection, “call transferred to a voice mailbox” – excluding a call originating in an international telecommunications system.

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

75.11(a)^(A71) In this section –

"**Limited Plan**" – A minute plan which is limited to a number of minutes according to the subscriber engagement plan.

"**Unlimited Plan**" – An unlimited minute plan, for which the subscriber pays.

"**Toll-Free Number**" – A telephone number, a call to which from any network has been determined to be free of charge for the caller;

"**Special Telephone Number at a Composite Rate**" – A national or network telephone number in an Irregular Number Pattern, the rate of a call to which is a Composite Rate;

"**Special Telephone Number at a Regular Rate**" – A national¹⁰ or network¹¹ telephone number in an Irregular Number Pattern, the rate of a call to which does not exceed the Regular Rate;

"**Irregular Number Pattern**" – A number pattern which is not a regular number pattern;

"**Regular Number Pattern**" – A number pattern of geographical numbers and national numbers, as defined in the number plan¹²;

"**Composite Rate**" – A rate comprising a Regular Rate plus a rate for a service that is provided by a Licensee or anyone on its behalf or a service provider;

"**Regular Rate**" – A rate per call minute to telephone numbers in a Regular Number Pattern, in accordance with the subscriber's tariff plan.

- (b) The Licensee shall not charge a subscriber calling destinations with Toll-Free Numbers and will not count the calling minutes to such destinations in a Limited Plan.
- (c) The Licensee may charge a subscriber calling destinations with Special Telephone Numbers at a Regular Rate, and shall count the calling minutes to the said destinations in a Limited Plan or in an Unlimited Plan. For the avoidance of doubt, the Licensee may not charge a subscriber calling destinations with Special Telephone Numbers at a Regular Rate any extra fee over the fixed payment that he pays for the minute plan, insofar as the subscriber shall not have exceeded the minute quota in the plan. If the subscriber exceeds the minute quota in the plan, the Licensee may charge him for calling the said destinations according to a rate no higher than the Regular Rate. In addition to the aforesaid, the Licensee may not make any distinction in the rate, according to which it charges the subscriber, between calling telephone numbers with a Regular Number Pattern and calling Special Telephone Numbers at a Regular Rate, including by determining separate call minute plans.
- (d) If the charge for calls to destinations with Special Telephone Numbers is made according to a Composite Rate, the Licensee shall count the calling minutes to the said destinations in the framework of the Limited Plan or the Unlimited Plan for which the subscriber pays.

The Licensee may charge the subscriber for the services provided in the framework of calling telephone numbers which are charged according to a Composite Rate, whether the charge is made according to a call minute or the charge is fixed per call, in addition to the fixed payment for the minute plan.

^{A54} Amendment No. 71 (Inception: Sections 75.11(a)-(c) will take effect no later than September 3, 2013; Sections 75.11(d) will take effect no later than December 3, 2013).

¹⁰ A telephone number, access to which is possible from any network.

¹¹ A telephone number, access to which is possible only from the license holder's network.

¹² For example, numbers in the pattern 03-XXXXXXX, 05Y-XXXXXXX and 07Z-XXXXXXX.

2. Sections 75.11(a)-(c) will take effect no later than **Elul 28, 5773 (September 3, 2013)**.

Section 75.11(d) will take effect no later than **Kislev 30, 5774 (December 3, 2013)**.

75A.^{A25)} Completion of a Call in Another Public Telecommunications Network

The payment for completion of a call to be collected by the Licensee shall not exceed the interconnection rate specified in the Telecommunications Regulations (Payments for Interconnection), 2000.

75B.^{A2A25)} Completion of an SMS on Another Public Telecommunications Network

The Licensee may collect from a subscriber for the transfer of an SMS which is being transferred from end-user equipment that is connected to the network to end-user equipment that is connected to a cellular system of another cellular licensee, a payment not exceeding the payment which the Licensee collects from the subscriber for the transfer of an SMS which is transferred from end-user equipment that is connected to the network to end-user equipment that is connected to the network, plus a payment not exceeding the rate for the transfer of an SMS specified in the Communications Regulations (Telecommunications and Transmissions) (Payments for Interconnection), 2000.

For purposes of this section –

“SMS” – telecommunications messages comprised of writing, including signs or symbols, transferred from end-user equipment that is connected to the network, to end-user equipment that is connected to the network or to a cellular system of another cellular licensee.

75C.^{A27)} Temporary Order

Notwithstanding that stated in section 75B, for the period beginning May 9, 2004 and ending February 9, 2005^{A29)}, the following provisions shall apply:

- (a) The Licensee may collect from a subscriber for the transfer of an SMS which is destined for end-user equipment that is connected to a cellular system of another cellular licensee (hereinafter – “inter-network SMS”) a payment not exceeding the payment which the Licensee collects from the subscriber for the transfer of an SMS which is transferred from end-user equipment that is connected to the network to end-user equipment that is connected to the network, plus a payment not exceeding the rate for the transfer of an SMS specified in the Communications Regulations (Telecommunications and Transmissions) (Payments for Interconnection), 2000, less a rate of 0.7%⁸⁾;
- (b) The Licensee may collect from a subscriber payment for an inter-network SMS as stated in subsection (a), even if its transfer to the called subscriber was not completed.

⁸⁾ The 0.7% reduction is based on a report received from some cellular operators concerning the rate of inter-network SMS messages that did not reach their destination. Section 75C was enacted as an temporary order, with the cellular operators to make the necessary adjustments in the cellular systems and in the interconnection arrangements between them to enable full implementation of section 75B of their license. To remove doubt, it is clarified that this temporary order was enacted only for a limited time, owing to difficulties that were pointed out by the cellular operators concerning the possibility of receiving information about non-completion of an SMS on another cellular network; However, beyond this, nothing may be inferred from this temporary arrangement concerning permission to collect payment for an SMS that was not transferred to its destination, and said arrangement does not detract from the Ministry's basic position according to which, in general, no payment may be collected for a telecommunications service that was not realized.

75D.^{A58} Notice Concerning Utilization of Service Package in Israel

75D.1 cancelled.

75D.2 Notices regarding Utilization of Service Package

(a) If the subscriber purchased a service or service package for which a quota of units was set, the license owner shall notify the subscriber by text message about the rate of utilization of the unit quota when the subscriber utilized 75% and 100% of the unit quota of the service package or any one of the services included therein. The text message shall be sent to the subscriber as close as possible to the date on which the subscriber reached each of said utilization levels. The text message shall be sent to the telephone number of the subscriber and to an additional telephone number, if the subscriber set one upon when contracting with the license owner. The text message shall be sent free of charge, and shall include the rate of utilization of the package or the service, the date on which the subscriber reached said utilization while detailing the date and time on which the utilization rate of determined, the rate of deviation from the service package or any of the services included therein, if the deviation is permitted, and the date of completion of the Bill Period. Said data shall be specified in accordance with the matter according to:

- (1) Call minutes;
- (2) Text messages;
- (3) Surfing (on MB);
- (4) Combined call minutes and text messages;
- (5) Combing call minutes, text messages and surfing.

For this matter, "**Service Package**" – a number of services marketed to the subscriber as a package with a fixed monthly payment, including service of calls in Israel, call service abroad, text message service or internet surfing service, when the package was determined for an overall unit quota¹³, or a certain unit quota was determined for each of the services included therein¹⁴, or that the subscriber determined a usage limit for usage control.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

¹³ Thus, for example, a package including 100 units of call minutes, text messages and internet surfing (in MB) for 15 NIS, the subscriber shall receive a text message in accordance with consumption regarding all of the above services. Thus, for example, a text message shall be sent after 75 units were utilized, and an additional warning text message shall be sent after 100 units are utilized.

¹⁴ Thus, for example, a package including 100 call minutes, 100 text messages and 50MB of internet surfing for 20 NIS, the subscriber shall receive a text message, in accordance with the consumption regarding each of the above services. Thus, for example, a text message shall be sent after 75 call minutes were utilized, and an additional warning text message shall be sent after 100 call minutes are utilized.

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

- (b) If the service pertains to call abroad, messages shall be sent to the subscriber, as stated, by the license owner, whose international system routes the calls abroad.
- (c) If it is a telephone line that is blocked from receiving text messages, the subscriber shall receive voice messages instead of text messages. After hearing the message for the first time on the voice mail, the subscriber shall be given the option by way of pressing a certain key to hear it again, and the message shall be played to the subscriber again, if he so chooses.
- (d) The license owner shall allow any subscriber who pays in advance (pre-paid), to receive updates from time to time, free of charge, as to the balance available to him and the date on which the validity of the budget available to him by way of dialing a designated telephone number, following which the subscriber shall receive said information by way of voice mail or by way of a text message.

75.3d Consumption of surfing service by a subscriber who purchased surfing service

- (a) If the subscriber reaches utilization of 100% of the quota determined for surfing service, the license owner shall discontinue the surfing service or shall slow down the surfing rate. The license owner shall send the subscriber a text message, free of charge, in which notice regarding the discontinuation or slowing down of the service shall be made. If the license owner allows surfing at a lower speed, he may not charge the subscriber additional payment beyond the fixed monthly payment for the surfing service.
- (b) The license owner may continue providing the subscriber with surfing services for an additional payment following utilization of 100% of the quota set forth for the surfing service determined, provided that the subscriber requested to do so explicitly, as specified in Section 60.6 during the Bill Period in which he utilized 100% of the quota determined for the surfing service; the license owner shall document the explicit request of the subscriber, as stated, and shall preserve the documentation in its possession, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the request submission date."

The subscriber may refuse, at the time of contracting with the license owner, to continue receiving surfing services for additional payment after utilizing 100% of the quota set from for surfing services before the completion of the Bill Period.

This shall be noted in a prominent place in the framework of publication of the relevant plan on the website of the license owner, if they are published on the website, and by a representative of the license owner during the performance of the sales contract.

- (c) If the subscriber purchased a package, which includes surfing, and which is comprised of a basic surfing package and of additional surfing packages for utilization after the complete utilization of the basic surfing package before the completion of the Bill Period, for each of which an amount of service units and price were determined, the subscriber may entirely cancel, at any time, in writing or orally, the purchase of the additional surfing packages he purchased, and shall not be charged more for them as of the date of the request onwards.

This shall be published in a prominent manner in the framework of publishing the relevant plans on the internet of the license owner, provided they are published on the website, and by the representative of the license owner during the sales call.

**TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION**

- (d) If the subscriber purchases a package which includes a basic surfing package, the subscriber may request the license owner, at any time, whether in writing or orally, to block access to the surfing service and the license owner shall reply to his request.

75.4d Consumption of surfing service by a subscriber who did not purchase surfing service

- (a) The license owner shall block from surfing a Private Subscriber who did not purchase a surfing package with a surfing volume set forth in the agreement between him and the license owner.
- (b) If the license owner blocked the surfing service, as stated in sub-section (a), the subscriber may contact the license owner by way of a telephone call with the service representative for re-connection of the surfing service, and this obligates the subscriber in accordance with the surfing volume he shall order or consume. The representative of the license owner shall state the surfing rate to 1MB to the subscriber. The subscriber's request and its documentation shall be done in accordance with Section 60.6.
- (c)

PART B2 - International Roaming Service Package

75E. ^{A73} Billing for International Roaming Service

Definitions

75E.1 In this section –

"**Arrangement**" – A package or plan which includes surfing or calls or text message;

"**Surfing Arrangement**" – a package or plan which includes surfing.

"**Call or Text Messages Arrangement**" – a package or plan which include calls or text messages.

"**Surfing Package Offer**" – An offer of three different packages or plans, insofar as exist at the Licensee, which include Surfing Service, which were offered to the Licensee's subscribers in the month prior to the date on which the package offer was sent to the subscriber.

"**Call or Text Messages Arrangement Offer**" – an offer of three different packages or plans, if available at the license owner, which include calls or text messages, offered to the subscribers of the license owner during the month prior to the date on which the arrangement offer was sent to the subscriber.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A73} Amendment No. 73 (Inception: This amendment will come into force no later than February 17,2014)

^{A74} Amendment No. 74

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"**Package**" – A limited number of service units which may be used in a limited period of time, through an international roaming service Abroad, which is sold at a fixed and predetermined price, and is valid for certain Destinations;

"**Abroad**" or "**Destination**" – A country, including a ship at sea and an aircraft;

"**MB**" – One million bytes (MByte);

"**Blocked Subscriber**" – a subscriber who did not request by way of a form for "access to services" to have permanent access to surfing services.

"**Open Subscriber**" – a subscriber who requested by way of a form for "access to services" to be permanently accessible to surfing services

"**Surfing Service**" or "**Surfing**" – Cellular surfing service Abroad;

"**Plan**" – A tariff plan for a limited period of time or for a specific trip overseas⁷⁴ for the consumption of services through an international roaming service Abroad (such as: call service, sending and receiving text messages and internet) for the Destinations included therein, with the payment for the services being made according to consumption; the rates of the services included in the plan are different to the rate for the same services for a subscriber who did not sign up for the plan; the plan may determine a fixed fee that does not depend on consumption.

"**Non-Reduced Rate**" – a rate for call minute to a text message and to 1 MB not within the framework of the arrangement.

"**Reduced Rate**" – a rate for call minute to a text message and to 1 MB within the framework of the arrangement.

Notices regarding utilization of international roaming services and non-reduced rates for calls and text messages

75E.2

- (a) An arrangement which the subscriber purchased shall enter into force on the date determined by the subscriber at the time of purchase.
- (b) (1) The license owner shall send text messages to the subscriber who purchased the arrangement when the subscriber utilized 75% and 100% of each of the follows:
 - ((a)) The number of service units or the fixed amount of money determined for payment for the usage of the services;
 - ((b)) The period of validity of the arrangement.
- (2) The text messages shall be sent free of charge, as close as possible to the date on which the subscriber reached the said utilization level; the text messages shall include notice to the subscriber according to which the said utilization levels were reached, the number of service units left, the number of days left until the end of the period of validity of the arrangement, the date of making the utilization calculation (date and hour) and the rate for the deviation from the arrangement, as far as the deviation is permitted.

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- (3) In this section, "Service Units" shall be according to these:
- ((a)) calls – call minutes;
 - ((b)) text messages – the number of text messages sent;
 - ((c)) surfing – surfing volumes by MB or GB.
- (4) In packages which include combined call, text messages or surfing messages, the utilization rate of the package shall be calculated according to the said Service Units.
- (5) The license owner shall send a text message free of charge to a subscriber who did not purchase a call or text message arrangement, or that said arrangement purchased did not include the destination to which he arrived, immediately upon his arrival to any destination, as stated, which shall state that making calls, receiving calls and sending text messages shall be subject to a fee according to the non-reduced rate. Furthermore, the text message shall include the offer of a call or text message arrangement.
- (6) The license owner shall document the said text messages in this Section, as specified in Section 60.6(c), shall preserve the documentation, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date it was sent.
- (c) Notwithstanding the provisions of Section 75.2E(b)(1) -
- (1) The license holder will be exempt from sending SMSs to a subscriber in respect of use of the package to which he subscribed, as stated in Section 75.2E(b)(1), provided that all of the following are fulfilled:
 - (2) The subscriber purchased the package before Adar B 29, 5774 (March 31, 2014);
 - (3) The subscriber explicitly agreed in writing to waive receipt of SMSs as stated in Section 75.2E(b)(1);
 - (4) The license holder proves, to the Director's satisfaction, that a technological restriction beyond its control is preventing it from receiving an indication in real time or close to real time with respect to the making of direct dial calls.
 - (3) With respect to a subscriber who makes use of Cellular end equipment which does not support an SMS service, including a tablet with a SIM card and a cellular modem, the license holder will demand of the subscriber, at the time of subscribing to the package, a means of communication as an alternative to SMS (such as Skype, Viber, Whatsapp applications, e-mail or voicemail) ("**Alternative Means**"); if the subscriber provides Alternative Means, the license holder will send to the subscriber the messages regarding use of the package as stated in Section 75.2E(b)(1) via the Alternative Means.

75E.3 **Blocking the Surfing Service to a Private Subscriber, a Split Business Subscriber by International Roaming Surfing to a Blocked Business Subscriber and a Subscriber without a Surfing Arrangement**

- (a) If a Private Subscriber or a Split Business Subscriber who is charged for international roaming surfing service (hereinafter – "**Split Business Subscriber by Surfing Service in International Roaming**") or a blocked business subscriber package which includes surfing purchase a package which includes surfing, the license owner shall block the access to the surfing service after the complete utilization of the package or after the completion of the period of validity of the package, the earlier of the two, free of charge, and the subscriber shall not be required to make any payment for the surfing service beyond the payment known in advance for the package he purchased. The license owner shall send the subscriber a text message, free of charge, regarding the said blockage close to the time of the blockage. The text message shall include the surfing arrangement offer.

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THE BINDING VERSION IS THE HEBREW VERSION

If a Private Subscriber or a Split Business Subscriber in an international roaming surfing service or a blocked package business subscriber, which includes surfing, comprised of a basic surfing package and of additional surfing packages for utilization after fully utilizing the basic surfing package, for each of which Service Unit amounts and price were determined or comprised of a basic surfing package, after the full utilization thereof, the subscriber is charged according to a reduced rate; the subscriber may entirely cancel at any time, in writing or orally, the purchase of additional surfing packages he purchased or the additional surfing according to a reduced rate he purchased, and the license owner shall stop supplying him the additional surfing packages or the additional surfing at the reduced rate, and shall not charge him for surfing as of the date of the request onwards.

The license owner shall document the explicit request of the subscriber, as stated, as specified in Section 60.6(c), shall preserve the documentation, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date the request was submitted.

If a Private Subscriber or a Split Business Subscriber in an international roaming surfing service or a blocked package business subscriber may refuse, at the time of ordering the service from the license owner, to continue receiving the surfing service for an additional charge after utilization of 100% of the basic package determined for the surfing service, as specified in Section 75.2e(b)(1). This shall be stated in a prominent place in the framework of the publication of the relevant plans on the website of the license owner and by the representative of the license owner during the sale call.

- (b) The license owner shall block, free of charge, the access to the surfing service of each subscriber immediately upon his arrival abroad, unless one of the following conditions exist in a subscriber:
- (1) The subscriber has a surfing arrangement;
 - (2) The subscriber requested to be an open subscriber¹⁵.
- (c) If one of the conditions stated in sub-section (b) does not exist in a subscriber, and the license owner did not block the surfing service from the subscriber, the license owner shall not charge the subscriber for the surfing service.

¹⁵ An "open" situation on the form for access to services, without a surfing arrangement, is relevant to a business subscriber only; a private subscriber and a split business subscriber on international roaming surfing, without a surfing arrangement, shall be blocked from surfing as a default.

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THE BINDING VERSION IS THE HEBREW VERSION

- (d) The license owner shall block, free of charge, access to surfing service, as stated in sub-section (b), and shall not charge a private subscriber or a split business subscriber for international roaming surfing service or a block business subscriber for surfing service, as stated in subsection (c) at any time the subscriber, as stated, who purchased a surfing arrangement, reached a destination that is not included in the surfing arrangement. The license owner shall re-offer the subscriber, as stated, the surfing service immediately and automatically, and without the need for the subscriber to perform any manual action at any time the subscriber is at a destination which is included in the surfing arrangement.
- (e) The license owner shall send the subscriber, as stated, a text message, free of charge, regarding the blockage stated in subsection (b) and (d), close to the blockage date, and shall state therein the reason for the blockage and the methods of contacting it in order to unblock. The text message shall include an offer for a surfing arrangement.
- (f) Ordering surfing service by a blocked business subscriber while he is abroad, after his access to surfing service was blocked, to allow him access to surfing service without purchasing a surfing arrangement, shall be performed by way of a telephone call with a representative of the license owner, who shall state to the subscriber the non-reduced surfing rate for 1 MB. The access to the surfing service shall open after the subscriber confirmed the non-reduced surfing rate stated to him. Section 60.6 shall apply to the documentation of the order, and the documentation shall also include the trustworthy identification details of the subscriber and his confirmation, as stated.

75E.4 Cancelled.

75E.5 **Blocking surfing service from an open business subscriber**

- (a) The license owner shall send an open business subscriber who did not purchase surfing service or that the surfing arrangement he purchased did not include the country to which he arrived, a text message free of charge immediately upon his arrival abroad, which shall include a warning regarding the possible consumption of surfing service subject to a fee, without the subscriber initiating a surfing action, and shall include surfing charges without the purchase of a surfing arrangement. Furthermore, the text message shall include a surfing arrangement offer.

The license owner shall document the sending of said text message to the business subscriber, as specified in Section 60.6(c), shall preserve the documentation and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date the text messages were sent.

- (b) The license owner shall send the open business subscriber who purchased only a basic package, whose rate after its full utilization is a reduced or non-reduced rate, text messages free of charge, which included notice regarding the rate of utilization of the package, as stated in Section 75.2e(b), and the rate, as stated.

The license owner shall document the sending of said text messages to the subscriber and the sending of said text messages by the subscriber to it, if any, as specified in Section 60.6(c), shall preserve the documentation, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date they were sent.

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THE BINDING VERSION IS THE HEBREW VERSION

- 75E.6 The Licensee shall inform its subscribers, in the telephone bill following the date of signing of the license amendment, of their possibility to block Surfing Service by filling out the "Access to Services Form" which is posted on the licensee's website. The subscriber may send the said form to the licensee by regular mail, e-mail, facsimile or via an online form on the Licensee's website, insofar as the Licensee's website supports such possibility.
- 75E.7 The Licensee shall post on its website information regarding the possibility available to the subscriber of blocking access to Surfing Service also through the end equipment, insofar as such blocking does not also block the possibility of surfing in Israel.
- 75E.8 The Licensee shall post on its website information whereby there are services which consume data for a fee, also without any active action being taken by the subscriber, such as: automatic synchronization of e-mail and the update of various applications.
- 75E.9 Billing for international roaming services according to a rate per unit, shall be made in the telephone bill retroactively, after consumption of the services, and not in advance. Insofar as a subscriber purchases an Arrangement which includes a predetermined payment, the billing for such payment shall be made in the billing period during which the transaction took effect.
- 75E.10 Without derogating from the provisions of Section 55A, Section 60.6 shall apply to a transaction for the "remote sale" of services via an international roaming service.
- 75E.11 The Licensee shall send, free of charge, a text message to any subscriber who performed a "remote sale" transaction for the purchase of services via an international roaming service, which includes a summary of the transaction, as early as possible, and no later than the end of the day on which the "remote sale" transaction was performed. As long as the transaction for the purchase of calls or text messages does not include destinations abroad, it shall be noted in said text message that outgoing calls and sending text messages to destinations abroad shall be charged at the non-reduced rate.

The license owner shall document its sending said text message, as specified in Section 60.6(c), shall preserve the documentation, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date of performance of the transaction

In addition, the Licensee shall state information regarding the said "remote sale" transaction in the telephone bill following the date of performance of the transaction, in accordance with the subscriber's billing period, including the telephone number in respect of which the transaction was performed, the date of performance of the transaction, the quantity and types of the services purchased via an international roaming service, the number of days allocated for use of the services, the date and time of commencement of provision of the services, the price of the services purchased, the price according to which consumption of services over and above the Package shall be charged, insofar as a Package is purchased, and the manner of rounding off of any quantity that shall be consumed (the "**Details of the Transaction**").

The license owner shall preserve a copy of the telephone bill in which the details of the transaction shall be specified, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date the bill was made.

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- 75E.12 In an engagement for the purchase of services via an international roaming service performed in the presence of a representative of the Licensee and the subscriber, printed confirmation shall be delivered to the subscriber upon performance of the transaction, including the Details of the Transaction. The license owner shall preserve a copy of the confirmation, as stated, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date of execution of the transaction.
- 75E.13 The Licensee shall post on its website all of the marketed arrangements to private subscribers, as well as the rates of all of the international roaming services for a subscriber without an Arrangement, for all of the Destinations in respect of which the licensee has an international roaming agreement. The Licensee will not charge a subscriber for an international roaming service provided at a Destination that was not published thereby as aforesaid before the charge.
- 75E.14 The rate for Surfing Service shall be stated by the Licensee, wherever it is stated, in units of NIS per 1 MB.
- 75E.15 The internet rate per 1 MB for a subscriber who is not in a Surfing Arrangement will be lower than the price of the cheapest Package offered by the Licensee.
- 75E.16 The purchase of a Surfing Arrangement, in Israel or Abroad, does not change the default option stated in the updated services order form other than for the period of such Surfing Arrangement.
- 76. Publication of Rates**
- 76.1 The Licensee shall provide to anyone so requesting, at the service offices and at the call centers, free of charge, full and detailed information concerning the up-to-date rates for all its services, including the payment for completion of a call; The Director may instruct the Licensee concerning the manner and format of publication of the rates.
- 76.2 The Licensee shall indicate in every account sent to a subscriber the package of services according to which the subscriber is being debited.
- 76.3 The Director may request to receive from the Licensee at any time details of the rates charged by it.
- 77. Void^{A43)}**
- 77A. Fraud Prevention**
- 77A.1 The Licensee shall take suitable and reasonable steps to prevent fraud and shall maintain a control and follow-up system for verifying, to the extent possible, that the calls for which the subscriber is being debited were actually made from end-user equipment connected to the Licensee's cellular system in the subscriber's name.
- 77A.2 The Licensee shall disconnect the service to the subscriber's end-user equipment after receiving at the service offices the subscriber's notification that the end-user equipment was lost or stolen, or that there is a possibility that someone else is making calls through the end-user equipment without having received permission to do so; The subscriber may give such a notification by telephone or in writing, including by fax or email; Upon receipt of a telephone notification or immediately after receipt of a written notification, the Licensee shall verify its reliability and disconnect the service.

77A.3 The Licensee shall cooperate with other licensees in locating and preventing fraud.

Part C – Changes in the Rates

78. Change in the Rates

78.1 Subject to that stated in Section 75, the license owner may modify the rate or the number of service units allotted for the bill period (hereinafter: the "Number of Units") of each service or service package (hereinafter in this section – "Service"), which it determined, provided that:

- (a) It sent the manager written notice between fourteen (14) days to twenty one (21) days prior to the date the modification entered into force, and which details the service, the rate or the new number of units and the date of their entry into force, as well as the rate or number of units prior to the modification.

The duty to send the manager notice regarding the modification shall not apply to a modification determined in advance in the contracting agreement at the time of the subscriber's joining the service or service package.

- (b) It sent a written message in advance to every subscriber who joined the service, in which the name of the service shall be stated, the rate or the new number of units and the date of their entry into force, as well as the rate or the number of units prior to the modification, between fourteen (14) days to twenty one (21) days prior to the date the modification entered into force.

Despite the aforementioned, regarding the rate reduction, the license owner may send the notice to the subscriber up to one month after the reduction.

In reference to this section "**Modification**" – any modification in the rate that may cause an increase or reduction in payment before VAT, which the subscriber has to pay for the services of the license owner or any reduction in the allotted number of service units to the bill period without a rate modification.

- (c) The notice as stated in subsection (b) shall be sent to the subscriber who has access to the receipt of text message services by way of a text message, and to a subscriber who is blocked from receiving text message services by way of voice mail. After hearing the message for the first time on the voice mail, the subscriber shall be given the option by way of pressing a certain key to hear it again, and the message shall be played to the subscriber again, if he so chooses.

- (d) The license owner shall preserve the documentation regarding sending the notice as follows:

- (1) Printout from notebook server of message delivery, as specified in Section 60.6(c);
- (2) Recording of the voice message as specified in Section 106a.

The license owner shall make the documentation of the delivery of the message available for delivery or transfer to the manager, at his request, within five (5) business days from the date it was sent.

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- (e) The duty to send the subscriber notice regarding a modification shall apply also to a modification determined in advance in the contacting agreement at the time of joining the service or service package or the rate plan.
- (f) The license owner shall state in the phone bill, that during the bill period for which the modification was made, in the framework of the "account detail", as specified in Section 9 (a) of Appendix E1, the rate and the number of new units and the date of their entry into force, as well as the rate or number of units prior to the modification.

The license owner shall make a copy of the telephone bill available for delivery or transfer to the manager, at his request, within five (5) business days from the date of its issuance.

- (g) If the license owner provided the subscriber a service that is not a speech service or text messages or surfing, for a discount or for free for a fixed period, including service that is not Bezeq service, the license owner shall send the subscriber a text message regarding the modification of the rate, as specified in Section 78.1(b), in which the subscriber is requested to send a return text message, which includes the digit zero (0), if he is not interested in continuing to receive the service subject to a fee. If the subscriber sent a text message which includes the digit zero (0), he may not continue or begin to charge the subscriber for said service upon the end of said term. The documentation regarding the delivery of the text message by the license owner to the subscriber shall be performed as specified in Section 60.6(c) and the content of the text message shall be documented.

The license owner shall make the said documentation available for delivery or transfer to the Manager, at his request, within five (5) business days from the date of sending the text message.

79. Start of an Increase or Reduction in a Rate

In case of an increase or reduction in any rate for cellular services according to the provisions of the license, such increase or reduction shall not apply to payments made for such a service prior to the starting date of the increase or the reduction; An increase or reduction shall apply only to cellular services provided to a subscriber after the date of the increase or reduction; This section shall not apply to a rate adjustment ordered by the Minister under section 83(A).

80. Arrears in Payment

80.1 The Licensee may debit a subscriber arrears interest, linkage differences and collection costs on payments for cellular services which were not paid by a subscriber on their stipulated payment date, in a payment notice sent to the subscriber, according to the contract between them^{A337} (hereinafter – the payment date).

80.2 Void^{A43}

80.3 The amount of the arrears interest shall not exceed the rate specified in the definition of "linkage differences and interest" in section 1 of the Adjudication of Interest and Linkage Law, 1961, plus linkage differences for the period between the stipulated payment date and the actual payment date of the specified amount.

80.4 ^{A337}The Licensee may debit a subscriber collection costs on a payment for a service which it provided to the subscriber, which was not paid on the payment date (hereinafter – the amount of the debt), provided at least fourteen (14) days have elapsed from the payment date, excluding a case of nonpayment due to the bank's or the credit-card company's refusal to pay a debit for the collection of which the Licensee received an authorization; The amount of the collection costs to be collected by the Licensee shall be reasonable and in proportion to the amount of the debt and the actions which the Licensee must take in order to collect it.: In this regard, "collection costs" – including legal handling by the Licensee or someone acting on its behalf, of the collection of the amount of the debt before application is made to the courts.

Part D – Miscellaneous

81. Connection Fee

- (a) The connection fee and the smartcard fee shall be uniform, independent of the type or model of the end user equipment, type of smartcard, the technological generation of the network to which the end user equipment of the subscriber shall be connected, etc.
- (b) If the Licensee decides to collect a connection fee as defined in section 74(A), it may debit a subscriber a connection fee only for the connection of the subscriber for the first time to the cellular network and the provision of the cellular services, or for a connection after the termination of contraction under section 69d.
- (c) The license owner may not charge from the subscriber connection fee as long as the connection of the end user equipment has not been completed, including activation of the smartcard.

81a. Smartcard Fees

- (a) The smartcard fees shall be reasonable in relation to the cost of the smartcard for the license owner.
- (b) The smartcard fees shall be uniform, independent of the type or model of the end user equipment, type of smartcard, the technological generation of the network to which the end user equipment of the subscriber shall be connected, etc.
- (c) The smartcard fees shall not include the price of the end user equipment, and they shall be presented separately in the contracting agreement, in the telephone bill of the subscriber and in the publication of the rate plan on the website of the license owner, if such was published.
- (d) If the license owner shall charge the subscriber with smartcard fees, it may charge the payment from him only as a one-time payment in the framework of the first telephone bill, following the date of delivery or sending of the smartcard. If the license owner did not do so, he may not charge for said payment thereafter, and it may not charge the subscriber said payment or any other payment if he does not return the smartcard following the termination of the contracting between them.
- (e) The license owner may not charge from the subscriber smartcard fees for replacing the smartcard due to a malfunction discovered therein.
- (f) The license owner may not discriminate a subscriber who did not purchase end user equipment from him in collecting smartcard fees
- (g) If a subscriber has a smartcard, which was issued to him by the license owner, which was used by the subscriber in the past and was disconnected as a result of the termination of the contract, and the subscriber requests to activate it in order to return to being a subscriber of the license owner, the license owner shall do so, and may not charge the subscriber smartcard fees.

82. Collection of Connection Fee in Installments

The Licensee may collect the connection fee as stated in section 81 for connection to the cellular system in a number of installments, at the times agreed upon with the subscriber and in the amount specified in the contract.

83. Harm to Competition or to Consumers

- (a) If the Minister finds that any of the Licensee's rates or any payment required to be made to or through the Licensee is contrary to the provisions of the License, the Minister shall notify the Licensee in that regard, indicating the correction that needs to be made and that if the Licensee fails to do so, the Minister will act pursuant to his power under sections 5 and 15 of the Law; The Licensee shall send the Minister a written notification setting out the corrected rate and shall act to refund the excess amount, if any, which a subscriber was debited according to the rate prior to its correction.
- (b) If the Minister finds that any of the Licensee's rates or any payment required to be made to or through the Licensee is unreasonable or is liable to harm competition or the consumers, the Minister shall notify the Licensee in that regard, indicating the correction that needs to be made and that if the Licensee fails to do so, the Minister will act pursuant to his power under sections 5 and 15 of the Law; The Licensee shall send the Minister a written notification setting out the corrected rate

83A.^{A58} Excess Charges

- (a) The license owner may charge from a subscriber payments only in accordance with that specified in its contracting agreement with the subscriber, and in accordance with the provisions of Sections 74.3(c) – 74.3(f).
- (b) If the subscriber filed a complaint with the license owner according to which the license owner charged an additional amount to the total he was entitled to collection in accordance with the contracting agreement (hereinafter – "**Overcharge**"), the license owner shall review the subscriber's complaint within ten (10) business days from the date of receipt of the complaint. In regards to this Section, "**Complaint**" – in writing or orally, including the reference of the subscriber to the license owner in order to verify the charge details; "**Date of Receipt of the Complaint**" – regarding a written complaint – the date of receipt of the complaint by the license owner, and regarding an oral complaint – the date on which the complaint was reported to the license owner.

The license owner shall document the content of the complaint in its information system immediately upon its filing, and the results of the review or its transfer to the manager, at its request, within five (5) business days from the completion of the review of the complaint.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

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- (c) If the license owner discovered that he overcharged the subscriber, the license owner shall return to the subscriber the overcharge in one payment, without determining an condition thereto, and shall return the VAT for the said amount, together with "linkage differentials and interest" as defined in Section 1 of the Interest and Linkage Law, 1961, from the date of collection until the date of the actual return (hereinafter: the "**Return Amount**") and this as specified below:
- (1) If the return amount is greater than fifty (50) NIS, the return amount shall be directly transferred to the method of payment (bank account or credit card) of the subscriber within four (4) business days after the completion of the period set forth in subsection (b). Despite the aforementioned, the license owner may return to the business subscriber the said return amount by way of a credit to the following telephone bill if the business subscriber agreed thereto.
 - (2) If the return amount is fifty (50) or less than that, the license owner shall return the amount by way of a credit to the telephone bill following the end of the period set forth in Section (b). If the return amount is greater than the amount to be paid in the next telephone bill, the balance shall be directly transferred to the method of payment of the subscriber within four (4) business days as of the date the telephone bill was sent to the subscriber; the offset from the telephone bill or the transfer of the return amount balance to the method of payment, shall be stated in the telephone bill pertaining to that matter;
 - (3) Despite the aforementioned in Clauses (1) and (2), return of the return amount to a pre-paid subscriber, shall be performed by way of increasing the balance available to the subscriber.
- (d) The license owner shall provide the subscriber with a written reply regarding his complaint within twenty one (21) business days from the date of receipt of the complaint. The response to a complaint shall include the detained reasons for the denial of the complaint, and as long as the reasons refer to the terms of the contracting agreement, its attachment to the response, referral to a section therein, according to which the charge on the telephone bill was made and the method of its calculation or mention of a return amount and the manner of which it was calculated.
- (e) (1) The license owner shall document in its information system, any complaint of the subscriber regarding overcharge, which was submitted in writing or orally.
- (2) The license owner shall preserve a copy of the reply, as stated in subsection (d); If the license owner sent the response via email or facsimile, the license owner may preserve a copy of the response and the copy of the confirmation of the delivery (hereinafter: "**Copy of the Response**").
- (3) The license owner shall make the complaint and a copy of the response available for delivery or transfer to the manager, at his request, within five (5) business days from the date the response was sent to the subscriber.

CHAPTER G: PAYMENTS FROM THE LICENSEE, LIABILITY, INSURANCE AND GUARANTEE

Part A – Royalties and Payments^{A16}

84. Royalties

- 84.1 The Licensee shall pay royalties as prescribed in the Telecommunications Regulations (Royalties), 2001, or in any other regulations replacing them (hereinafter – "**the Royalties Regulations**").
- 84.2 To every payment of royalties under this section the Licensee shall attach two copies of an unaudited quarterly income report, signed by the Licensee and certified by an accountant; The report shall contain a detailed calculation of the liable income according to the Royalties Regulations, and any other particular on which the Licensee based the amount of the royalties.

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84.3 Upon the submission of an annual income report audited and signed by the Licensee's accountant (hereinafter: "**the audited report**"), the Licensee shall submit a report, prepared by quarters, setting out the adjustment between the income on which it paid royalties, and the income appearing in the audited report (hereinafter – "**the adjustment report**").

84.4 If it becomes apparent that the amount of the royalties to be paid by the Licensee, according to the adjustment report, is greater than the amount paid by it for the quarter to which the audited report relates, the Licensee shall pay royalties differences, in addition to interest and linkage differences, as prescribed in the Royalties Regulations.

84.5 If it becomes apparent that the amount of the royalties paid by the Licensee is greater than the amount it was required to pay for the quarter to which the audited report relates, the Licensee shall be credited with the amount of the excess payment; The excess payments to which the Licensee is entitled shall be offset, pursuant to a written approval of the Director, from the next payment of royalties, and linkage differences and interest shall be calculated according to the last index published before the date of the offset; In this regard – interest and linkage differences, as prescribed in the Royalties Regulations.

85. Arrears in the Payment of Royalties

The Licensee shall pay linkage differences, arrears interest and collection costs, as set forth in the Royalties Regulations, on royalties that were not paid at the time stipulated therefor in the regulations.

86. Payment Method

Royalties as well as linkage differences, arrears interest and collection costs in respect thereof shall be paid to the Ministry of Communication's accountant by a bank transfer to the ministry's account.

87. Other Mandatory Payments

The royalties under this Part shall be in addition to any other fee, tax or mandatory payment which the Licensee is required to pay under any law.

Part B – Liability and Insurance

88. Definition of Scope of Insurance

In this Part, "use of the license" – setup, installation, maintenance, upkeep or operation of the cellular system, whether by the Licensee itself or through anyone acting on its behalf, including its employees, contractors, agents or representatives.

89. Licensee's Liability

89.1 The Licensee shall be liable at law for death, damage or loss to the body or property of any person, directly or indirectly resulting from or consequent on the use of the license.

89.2 When using the license, the Licensee shall take all reasonable precautions to prevent damage or loss to the body or property of any person, and where such damage or loss was caused due to the use of the license, the Licensee shall repair the damage at its expense and compensate the aggrieved party, all subject to any law, excluding a case in respect of which the Minister granted the Licensee immunity as specified in section 90.

To avoid doubt, this section shall not impose on the Licensee liability beyond the liability in torts established in the regular law of torts.

90. Immunity from Liability

- 90.1 The Minister may, at the Licensee's request, grant it all or any of the immunities enumerated in Chapter I of the Law, subject to that stated in section 90.3.
- 90.2 The Licensee shall set out in its request the immunities which it is requesting and the reasons therefor.
- 90.3 If the Minister is persuaded of the necessity of granting the Licensee the immunities under Chapter I of the Law, he shall publish his decision in a notice in *Reshumot*.

91. Making an Insurance Contract

- 91.1 The Licensee shall make, at its expense, an insurance contract with a licensed insurer according to the terms contained in section 92; The insurance contract shall be presented to the Director at the time of the grant of the license.
- 91.2 The Licensee shall indemnify the State in respect of any financial liability as stated in section 89.1, for which it may be held liable towards a third party due to the use of the license; Any indemnity under this section shall be insured by the Licensee for liability insurance.
- 91.3 The Licensee shall insure itself, including its employees and contractors, against any financial liability as stated in section 89.1, for which it may be held liable at law owing to damage caused to the body or property of a person from the use of the license, and against any loss or damage caused to all or a part of the cellular system from the use of the license, including against third party risks.
- 91.4 The Licensee shall submit to the Director an opinion of a lawyer specializing in insurance, confirming that the insurance policy covers everything required in sections 91.2 and 91.3; The Licensee shall attach to the opinion a copy of the insurance contract and its attachments; Said documents shall be submitted to the Director within 7 days of the signing of the insurance contract and shall be attached to this license as Addendum G.

92. Conditions in the Insurance Contract

- 92.1 The insurance contract shall specify the period of insurance and shall stipulate that at the end of the period of insurance the insurance shall be extended automatically.
- 92.2 The Licensee shall present to the Director, once a year, the insurer's confirmation that the insurance contract is valid, there are no arrears in the Licensee's payments of the premiums and there are no pending notices concerning the cancellation, suspension, limitation, amendment or termination of the insurance contract.
- 92.3 The insurance contract shall stipulate that in the event the insurer wishes to cancel the insurance contract, owing to nonpayment of the premium, it must give the Director prior notice in that regard not less than 90 days before the contract is actually due to be cancelled (hereinafter in this section – cancellation notice).
- 92.4 If a cancellation notice has been sent as stated in section 92.3, the Licensee shall act immediately to eliminate the cause of the cancellation, or shall act immediately to obtain an alternative insurance contract as stated in section 92.6, and it shall notify the Director of the actions it took for this purpose; Where the cause of cancellation was nonpayment of the premium by the Licensee, the Director may pay the premium in the Licensee's stead, and he may exercise the bank guarantee or any part thereof to cover amounts which he expended on payment of the premium or collect them in any other manner.
- 92.5 If the Licensee wishes to cancel the insurance contract, it must notify the Director in that regard at least 45 days before the contract is actually due to be cancelled.

92.6 If the Licensee has agreed to the cancellation of the insurance contract by the insurer or itself wishes to cancel the insurance contract, it shall make an insurance contract with another licensed insurer, in such manner that the new insurance contract will come into effect simultaneously with the lapse of the previous contract; The new insurance contract shall be submitted for approval to the Director, together with an opinion as stated in section 91.4, 45 days before its effective date, and it shall be subject to the provisions of the sections in this Part.

93. Remedy for Breach of Conditions with Respect to Insurance

If the Licensee did not make an insurance contract, or if it becomes apparent that the insurance contract which it made was cancelled or expired, the Director may effect insurance and pay the premium in the Licensee's stead, and it may exercise the bank guarantee to cover amounts expended by it on the insurance or collect them in any other manner; All the foregoing without derogating from the authority to cancel, restrict or suspend the license owing to the Licensee's failure to effect insurance according to the terms of this license.

Part C – Guarantee to Secure Fulfillment of the Terms of the License

94. The Guarantee and Its Purpose

94.1 The License Owner shall forward to the director an unconditional bank guarantee from an Israeli bank / autonomic insurance from an Israeli company (hereinafter – the "Guarantee") in favor of the State of Israel in NIS to ensure the fulfillment of the conditions of the License; the Guarantee amount, its phrasing and undertaking to extend the Guarantee shall be as stated in Appendix H to the Second Addition;

94.2 The guarantee shall serve as security for fulfillment of the terms of the license and for compensation and indemnification of the State for any damage, payment, loss, detriment or expense caused or liable to be caused to the State – whether directly or indirectly – due to nonfulfillment of all or any of the terms of the license, fully and on time, or due to the cancellation, restriction or suspension of the license.

95. Exercise of the Guarantee

95.1 Without derogating from the general purport of section 94.2, the Director may exercise the guarantee, in whole or in part, if damage is caused due to nonfulfillment of the terms of the license, including in each of the cases set out below:

- (a) The State incurred a loss of income from royalties owing to a lack of revenues from subscribers' payments, including by reason of:
 - (1) Failure to operate the cellular services at a time stipulated therefore in the timetable determined by the Director, or as approved by the Director;
 - (2) Discontinuation, suspension or restriction of services;
 - (3) Restriction or suspension of the license;
- (b) No insurance contract was made according to sections 91-92, the premium was not paid, or the insurance contract was cancelled or expired;
- (c) The Licensee is debiting its subscribers for payments contrary to that stated in section 75;

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- (d) The Licensee is not complying with the coverage and service quality requirements as stated in Appendix B and Appendix E does not meet the requirements regarding the Passive Components and the cellular radio centers as stated in Clause 19.2C.;
 - (e) The Licensee does not convert the cellular system to a digital technology by the date specified in Appendix B.
 - (f) The Licensee consistently or willfully violates any of the provisions, terms or requirements of the license;
 - (g) A claim or demand was submitted against the State for payment of compensation and damages due to a violation of a condition in the license or faulty implementation of the license or due to the cancellation of the license, and where the State incurred expenses due to such claim or demand; The exercise of the guarantee for the purpose of covering the amount of a claim as stated, shall be done only after the judgment in that claim has become absolute;
 - (h) Royalties according to section 74 were not paid fully and on time;
 - (i) The State incurred costs or damage due to the cancellation of the license;
 - (j) The Licensee did not complete the guarantee fees as specified in sections 96.2 and 79.2.
 - (k) ^{A16}The Licensee did not present the license fee on the required date, as stipulated in section 40.1 of the conditions of Tender No. 1/01.
 - (l) ^{A16}A monetary sanction was imposed on the Licensee in accordance with the law, and the required amount was not paid on time, provided no amount above the amount of the sanction is collected.
- 95.2 The Director may exercise the guarantee as stated in this Part also by reason of an expected violation of the terms of the license or frustration of the terms of the license that justify, at his discretion, early exercise of the guarantee.
- 96. Manner of Exercise of the Guarantee**
- 96.1 The Director may exercise the guarantee, in whole or in part, up to the amount specified therein, provided it warned the Licensee that if it does not correct the act or omission the subject of the warning within the period specified in the warning – the guarantee will be exercised, in whole or in part.
- 96.2 If the entire amount of the guarantee or a part thereof was exercised, the Licensee shall provide a new guarantee or complete the balance up to the original amount of the guarantee immediately upon the Director's demand; Failure to complete the amount of the guarantee as stated shall constitute a material breach of the terms of the license, and the Director may – without derogating from his authority to cancel, restrict or suspend the license – exercise any remaining balance of the guarantee.
- 96.3 The Licensee may appeal a decision of the Director to exercise the guarantee, in whole or in part, before the Minister within 15 days of being notified of the Director's decision.
- 97. Term of Validity of the Guarantee**
- 97.1 The guarantee shall be valid throughout the term of validity of the license and for ^{A16}two years after the end of the term of the license, or until the Licensee satisfies all its obligations under the license to the Director's satisfaction – according to the later of these two dates.

97.2 If the Director determines that the Licensee did not satisfy all its obligations under the license, within 60 days before the expiry of the term of the guarantee, he may require the Licensee to extend the term of the guarantee or to present a new guarantee, within the period specified by the Director; The new guarantee shall be valid up to the date specified by the Director or until the Licensee satisfies, to the Director's satisfaction, all its obligations under the licenses – according to the later of these two dates; If the Licensee fails to present a new guarantee as stated, the Director may exercise the guarantee.

97.3 Where the Director confirmed receipt of a guarantee the validity of which may be extended from time to time upon his demand, the Licensee shall extend the validity of the guarantee before the expected end of its term, for a year, unless the Director exempted it from this obligation; If the Director did not grant an exemption from the obligation to extend the validity of the guarantee, and the validity of the guarantee was not extended at the specified time, the Director may exercise the guarantee in its entirety without advance warning.

98. Preservation of Remedies

98.1 Exercise of the guarantee, in whole or in part, does not derogate from the authority to cancel, restrict or suspend the license.

98.2 The amount of the guarantee shall not serve to limit the scope of the Licensee's liability towards the State for payment of the full damages caused to it, where the Licensee is obligated to make such payment under the license or by law.

98.3 The exercise of the guarantee, in whole or in part, shall not derogate from the Director's right to demand from the Licensee in any other manner payment for damages which it is obligated to cover under this license or to exercise other reliefs that are available to him by law.

CHAPTER EIGHT – SUPERVISION AND REPORTING

Part A: Supervision of Licensee's Activities

99. Supervisory Power

The Director or anyone authorized by him for this purpose may supervise the Licensee's activities with respect to the implementation of the license and compliance with the provisions of the Law, the Ordinance and the Regulations pursuant thereto.

100. Preservation of Confidentiality

The Director and anyone engaging on his behalf in supervising the Licensee shall not disclose any information or document coming into their possession by virtue of their function, to a person who is not authorized to receive such information or document, unless it was already published in public or disclosure is necessary for the performance of their function under this license or by law.

101. Entry to Premises and Inspection of Documents

For the purpose of exercising the supervision as stated in this Part, the Director may:

- (a) Enter at any reasonable time any facility or office used by the Licensee to provide its services under this license.
- (b) Carry out measurements and tests on the cellular system, and he may inspect any record, document, plan, account book, ledger or data base, whether regular or computerized, of the Licensee or of anyone employed by the Licensee in subjects over which the Director has supervisory power as stated; The Director may inspect them and copy them in any manner he deems fit.

102. Cooperation

The Licensee shall cooperate with the Director or with anyone authorized by him with respect to the exercise of supervision over its activities as stated, and without derogating from the general purport of the aforesaid, it shall allow them to carry out that stated in sections 100 and 101 and shall furnish to them, upon their demand, any information in its possession or control that is required by them for the exercise of the supervision.

Part B: Reporting and Correction of Defects

103.^{A43} Duty of Submission of Reports

103.1 The Licensee shall submit to the Director the reports specified in this license, in the format and at the times stipulated in this part.

103.2 Every report shall reflect the correct facts relating to the subject thereof, updated for the period of the report.

103.3 A report shall be submitted in two (2) copies, printed and prepared in an easily readable form, bearing the date of its preparation and signed by the Licensee or whoever it authorized for this purpose; The report shall be submitted in a format as directed by the Director, including with respect to its contents, structure and manner of submission.

103.4 The Director may require the Licensee to prepare anew or to complete a report which it submitted, if he found it lacking in necessary details or details which, in the Director's opinion, should have been included by the Licensee in the report.

104.1^{A43} Types of Reports

The Licensee shall submit to the Director, at his request and at least once a year, at the end of the calendar year and not later than ninety (90) days thereafter, annual reports describing its activity in the period from January to December of the past year:

- (a) Financial statement audited and signed by an accountant;
- (b) Subscribers report, including the following data:
 - (1) Number of subscribers broken down according to business and private subscribers and according to post-paid and pre-paid;
 - (2) Amount of income broken down according to subsection (1), with each type of income from interconnection appearing separately, and broken down as well according to airtime and added-value services.
- (c) Report on the use of frequencies according to Chapter D Part C;
- (d) Addendum A – "Particulars of Licensee" updated as of the beginning of January, as detailed in section 20.1.
- (e) ^{A43}The engineering system report – an engineering plan for the setup, development and upgrade of the network in the format set forth in Appendix B.

- 104.2 The Licensee shall submit to the Director once a quarter, not later than a month after the end of the quarter, the following reports:
- (a) Unaudited quarterly financial statement signed by an accountant;
 - (b) Unaudited quarterly income report signed by an accountant, giving details of income on which royalties are payable;
 - (c) Traffic report – in a format as directed by the Director.
- 104.3 The Licensee shall submit a report on any special occurrence, as set out in regulation 8 of the Control Regulations.
- 104.4 The Licensee shall submit to the Director the following report, at his request:
- (a) Void^{A72};
 - (b) Malfunctions report – containing a brief description and discussion of the malfunctions that occurred in the network, the number of malfunctions and the cumulative duration of malfunctions of each type, an analysis of the malfunctions and the steps taken to repair them;
 - (c) Service quality report – Analysis of the Licensee’s compliance with the requirements of sections 49 to 51 and Addendum E – Level of Services for Subscribers, during the period of the report;
 - (d) Complaints report – detailing the written service complaints that were submitted by subscribers, including the subject of the complaints, the dates on which they were received, the written response given, the manner in which they were dealt with and details of the activity of the Public Ombudsman;
 - (e) List of the Licensee’s rates;
 - (f) Void^{A72};
 - (g) Encumbrances report – The Licensee must report to the Director immediately any case of imposition of an attachment or encumbrance on any of the Licensee’s assets or any case of an encumbrance on means of control in the Licensee, any realization of such encumbrances or voidance of any right of the Licensee in an asset; The Licensee must also submit to the Director, at his request, a report detailing all such encumbrances.
 - (h) Report on number of subscribers, income and minutes broken down according to private and business subscribers, and within each category – broken down according to subscribers for programs priced according to an “inclusive standard rate” and subscribers for programs priced separately for payment in respect of “airtime” and interconnection, in a format as directed by the Director;
 - (i) Nuisance subscribers report as detailed in section 65A.9;
 - (j) Any other data required for performance of control on the Licensee’s activities, and any information required by the Ministry for regulating the telecommunications sector.
- 104.5 The Director may add or remove periodical, annual or quarterly reports, and he may request the Licensee to submit special reports as directed by him.

105.^{A43} Notice Concerning a Defect

105.1 If the Manager discovered defects or impairments in the actions of the license owner, the manager shall notify it of such in writing (in this Section – "**Notice of the Manager**" or the "**Notice**").

105.2 The license owner shall provide his response to the manager in writing within the time period determined by the manager in the Notice. If the manager did not determine a time period for providing the license owner's response, the license owner shall provide his response to the manager no later than thirty (30) days from the date it received the Notice of the Manager. In its response, the license owner shall specify the means taken to amend the impairments and defects specified in the Notice and to prevent their reoccurrence.

106.^{A43} Void.

106a Preservation of documents and recordings

- (a) The license owner shall preserve documents and recordings pertaining to the terms of the contract with the subscriber throughout the term of the contracting agreement and for one year after the termination of the contract.
- (b) The license owner shall deliver or transfer to the manager, at his request, any document or recording pertaining to the terms of the contract with the subscriber, at the time, format and manner ordered by the Manager.

CHAPTER I – MISCELLANEOUS

107. The License as an Exhaustive Document

107.1 The Licensee's rights, obligations and powers with respect to the setup, maintenance and operation of the cellular system and the provision of services by means thereof, originate in and derive exclusively from and according to this license.

107.2 Void.^{A2)}

108. Keeping the License Document and Returning the License

108.1 The Licensee shall keep the license documents in its office and shall allow the public to inspect their true and up-to-date copies; In case the terms of the license are modified, the Licensee shall attach the modification wording to said license documents.

108.2^{A16)} If the license and its documents are made available for public inspection, the public shall not be allowed to inspect the following documents, which are included in the Second Schedule to the License:

- (a) Appendix A – Details of the Licensee;
- (b) Appendix B – ^{A72}the engineering plan attached to Appendix B;
- (c) Appendix D - Preparing to Ensure Continuity of Operations in Emergencies
- (d) Appendix G – Insurance contract;
- (e) Appendix H – Bank guarantee;

- (f) Appendix I – Special services for the security forces;
- (g) Appendix L – Special services for the security forces – security addendum (confidential);
- (h) Appendix M – Security directives;
- (i) Appendix N – Letters of undertaking.

108.3 The license documents are the property of the State and are entrusted to the Licensee for the term of validity of the license; Upon the cancellation or expiry of the license, the Licensee shall return the license with all its documents to the Director.

108.4 ^{A16)}The Licensee shall allow the public to inspect the license documents via the Internet; The Licensee may do this also by way of referral to the website of the Ministry of Communications, as long as the Ministry publishes the license on its website.

108.5 ^{A16)}The Ministry may publish the license, excluding the appendices indicated in section 108.2, at the time and in the manner deemed fit by it.

109. Postponement of Deadline

109.1 A duty imposed on the Licensee in this license, for which a performance deadline has been set, must be performed by the Licensee within the deadline.

109.2 ^{A2)}The Director, at the Licensee's request, may postpone a deadline set as stated, if it deems it impossible to perform the duty within such deadline for reasons of force majeure.

110. Reserving of Liability

Any approval or supervisory authority granted under this license to the Minister or to the Director, including the exercise of such authority, shall not impose on them any liability which is imposed by this license on the Licensee, and shall not derogate or detract from or void or diminish the Licensee's liability as stated.

111. Notices

111.1 A notice concerning this license or its implementation shall be in writing and shall be delivered by hand or dispatched by registered post with confirmation of delivery; A notice sent by registered post as stated shall be presumed to have reached its destination by the end of 48 hours from the time of its delivery for dispatch.

111.2 Any notice of the Licensee to the Minister shall be delivered or sent through the Director.

111.3 The Licensee's address for receipt of notices under this section is: 10 Hagavish St., Poleg Industrial Area, Netanya 42140; The Licensee shall notify the Director immediately of any changes in this address.

112. Operations in the Judea and Samaria Civil Administration Area

112.1 The License Owner shall contact the communications staff officer in the Judea and Samaria Civil Administration Area for the allotment of frequencies, the expansion of its license in the Judea and Samaria areas, for the expansion of the mobile telephony system and for the provision of Generation 4 services in the area in which the authorities in the Bezeq area are of the Civil Administration.

112.2 The License Owner shall operation in the Judea and Samaria areas in accordance with the license and frequencies allotment from the communications staff officer of the Civil Administration; the frequencies allotment and the license in the Judea and Samaria area, including the layout, minimum requirements and service level to the subscriber shall be mostly based on the allotment terms in Israel and the provisions of this license, mutatis mutandis, as shall be determined by the Civil Administration manager and in accordance with the law and the Security Legislation applicable to the Judea and Samaria areas, including the need to receive an individual approval for the establishment of each communication facility.

**First Schedule
List of Services and Measures for Quality of Service^{A16)}**

1. General

- 1.1. This Schedule includes the list of services the Licensee will provide, under the conditions set out in Section B of Chapter E – “**Level of Services for Subscribers**”.
- 1.2. The services will be provided in each of the technologies operated by the Licensee, unless otherwise noted in the License or in the Schedule to the License.
- 1.3. Wherever the term: “**Support in Various Languages**” is used, this denotes support in at least these four languages: Hebrew, Arabic, English and Russian.
- 1.4. ^{A43)} The Licensee must include in the service dossier at least the following details:

a. **Name of the service:** Name of the service, including its trade name and a general description of the service.

b. **Detailed description of the service:** Among other things –

Is it a new service / expansion of an existing service / combination of services / is there any need for a pretrial;
Manner of operating the service;
Date on which provision of the service is to commence;
Availability and measures for quality of service;
Support centers;
Price of the service;
Target audience of the service;
How to order the service;
Process of connecting to the service;
Implications or effects of this service on other services.

c. **Engineering description:**

Description and block diagram of the system;
End-user equipment – dedicated equipment for receiving the service.

d. **Miscellaneous:**

The need for numbering;
Required coordination with other licensees or entities.

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2. **List of Services**^{A65}

2.1. **Basic Telephone Services**

No.	Name of Service	Description of Service	Date of Provision	Service Quality Measures	Comments
1.	Cellular calls	Telephone calls to and from subscribers of the license holder to any telephone or other appropriate terminal equipment on another public communication network, in Israel or globally.	In place	Availability of the service 98%	
2.	Emergency calls	Free calls to the emergency services, to be determined by the Director (for example: Police, MDA, Fire Dept., others). The caller will be routed to the emergency center according to the service provider's definition in reference to the subscriber's location.	In place	Availability of the service 98%	According to the Director's instructions. The caller's telephone number may be identified by the public emergency services call center.

2.2. **Related Services**

No.	Name of Service	Description of Service	Date of Provision	Service Quality Measures	Comments
3.	Callwaiting with option for temporary suspension	Subscriber may receive an incoming call while on another call. The subscriber may suspend this service at will.	In place	Availability of the service 99.9%	
4.	Call forwarding	Forwarding incoming calls to another telephone number, at the subscriber's choice: Regularly, when the line is busy, when the call is not answered or in cases of unavailability.	In place	Availability of the service 99.9%	

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5.	Call transfer	The subscriber may transfer a call to another telephone number or between 2 terminal devices having the same number.	* 3/2007	Availability of the service 99.9%	In accordance with notice dated March 14, 2007
6.	Hunting group	Determination of a hunt number for the group of the subscriber's telephone numbers; dialing the hunt number will route the call to an available number in the group.	In the future	Availability of the service 99.9%	
7.	Caller ID	Caller's number is displayed on the subscriber's telephonedisplay.	In place		Dependent on the caller's terminal equipment
8.	Calling ID restriction	Allows the subscriber's telephone number to be blocked from display on the call recipient's display. The blocking may be permanent or one-time.	In place	Availability of the service 99.9%	
9.	Caller name announce-ment	Provides the possibility of identifying the caller by an audiosignature.	In place	Availability of the service 99.9%	
10.	Conference call	Supports a call for several subscribers simultaneously.	In place	Availability of the service 98%	
11.	Closed user group	A group of telephone numbers only between which a call may be made.	In place	Availability of the service 98%	On GSM network only.
12.	Voice mail	Storage and the possibility of retrieval of voice messages of persons calling the subscriber in a personal box.	In place	Availability of the service 99%	
13.	Advanced voice mail	A voicemail system as specified in Paragraph 12 above, plus additional "smart" features including a visual or voice announcement of incoming messages, the transfer of messages to other platforms and receipt of messages from such platforms.	In place	Availability of the service 98%	

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14.	Voice activated service	Voice activation of telephone and basic services, related services and value-added services.	Partially in place, will be expanded in the future	70% probability of good identification in areas with a signal level higher than 85dbm	
15.	Call tracking	Allows the subscriber, during a call, to send the applicant an announcement for the purpose of subsequent identification of the source of the call.	In the future	Availability of the service 99.9%	Subject to any law
16.	Virtual private network (VPN)	Allows speed dialing according to a private numbering program.	In place	Availability of the service 99.9%	For types of subscribers according to relevant distinctions. Currently provided to the business sector.
17.	Centrex	Allows the maintenance of a private network while using the network's resources.	In the future		
18.	Facsimile services	Receipt, storage and retrieval of facsimile messages through the telephone.	In place	Availability of the service 99.9%	
19.	Roaming	Provision of mobile phone services when visiting Israel (for "roamers" from overseas). Forwarding calls to a subscriber who is overseas through a holder of a license to provide international communication services and allowing subscribers who are overseas to receive mobile phone services from operators overseas, including call screening and call-back, and providing mobile phone services and related services to anyone visiting Israel (for roamers from overseas), all through roaming agreements with operators in other countries.	2002	Availability of the service 99.9%	The service was expanded in 2003 to also include data communications services.

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20.	Toll free service	The maker of the call is not charged. The subscriber called is charged in accordance with appropriate charge arrangements.	3/2010		According to service file ⁽¹⁸⁰⁰⁾ .
21.	Talk Two	One number for several SIM/terminal equipment units.	In place	Availability of the service 99%	
22.	Two telephone numbers for one SIM card	Definition of two telephone numbers for the same SIM card.	*7/2005	Availability of the service 99%	* According to notice dated June 7, 2005
23.	Change of number announcement	A person calling the subscriber will receive an announcement of the subscriber's new number and be given the possibility of routing to the new number at the applicant.	In place	Availability of the service 99.9%	On GSM network only.
24.	Camp on busy line	Automatic announcement and/or making of a call to a busy line once it becomes free.	*3/2004	Availability of the service 99.9%	* According to notice dated Feb. 5, 2004
25.	Personal number service	Allows the subscriber to determine that calls to one telephone number be routed to various destinations according to parameters to be determined by the subscriber.	In the future	Availability of the service 99.9%	
26.	Collect call	A call whose cost will be paid by the subscriber receiving the call, after authorization thereof.	In place	Availability of the service 99.9%	
27.	Message distribution	Distribution of messages to a list of recipients through various platforms.	In the future	Availability of the service 99.9%	
28.	Over the air services (OTA)	Remote update of data and applications on the SIM card/terminal equipment by the license holder. The applications will be run from the SIM card / terminal equipment by the subscriber, on the terminal equipment.	11/2011	Availability of the service 99%	

⁽¹⁸⁰⁰⁾ In accordance with service file "toll free service" ("1-800 service").

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29.	Account code billing	Code billing for one telephone number in separate bills. The subscriber's instruction regarding the account to be charged will be given by entering a code at the beginning of or during the call.	In the future	Availability of the service 99%	
30.	Star services	Allows a call to be made by dialing a speed access code according to an internal numbering program of the applicant.	In place	Availability of the service 99.9%	
31.	SMS – short messages services	Transmission and receipt of text, graphics, voice and image messages to and from mobile phone terminal equipment over the license holder's network, or from terminal equipment on other networks in Israel or overseas which have reached an agreement with the license holder. Transmission of such messages from a personal computer. Forwarding of incoming messages to a facsimile machine. The license holder will support various languages.	In place	Availability of the service 99%	Dependent on the terminal equipment
32.	Packet switching data communication	Connection of the subscriber through the telephone or an independent modem to TCP/UDP/IP communications for packet switching.	In place	Availability of the service 98% on a best effort basis	Dependent on terminal equipment
33.	Disconnection of service	Disconnection of service at the subscriber's request.	In place	To be performed no later than the business day after the date of the subscriber's request	
34.	POC (push to talk over cellular)	Making a call by pushing a button on the mobile terminal device. The call may be private (subscriber-to-subscriber) or for a group on a data communication network.	In place (comment)	According to service file	Pursuant to temporary provision

Temporary Provision The Licensee will allow operation of Push to Talk Over Cellular services (hereinafter: the Service) to any subscriber who is a legal entity (individual or corporation), provided the number of users (number of cellular end user equipment units permitted use of this service, hereinafter – end user equipments) in the possession of such subscriber does not exceed 20 during the first year starting on the date service begins. Notwithstanding the aforesaid, should there be any considerable changes in the cellular sector influencing provision of such service, the Ministry will consider a shorter period.

Application This service will not begin before Sunday, the 29th day of Tamuz, 5764 (July 18, 2004)

* availability of service is the percentage of time the service is available, not including availability of basic services.

2.3. Value Added Services

No.	Name of Service	Description of Service	Date of Provision	Service Quality Measures	Comments
35.	Directory assistance	Allows receipt of information on telephone numbers and the automatic making of a call to the number in respect of which the information was received.	In place	Availability of the service 99.9%	Pursuant to the provisions of Section 67A of the license
36.	Connectivity to information & enter-tainment services	Allows the subscriber connectivity to push or pull information services, entertainment, applications and content, both interactive and non-interactive, through various means of access.	In place	Availability of the service 99.9%	Dependent on the terminal equipment. Subject to the Director's instructions.

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37.	Access to internet provider services	Allows the subscriber access to an internet access provider.	In place		
38.	Location based information & tracking	Receiving and sending information dependent on the location of the telephone, subject to any law.	* 3/2007		* In accordance with notice dated March 14, 2007
39.	M-commerce	Connectivity through terminal equipment for the performance of transactions.	In place		Dependent on the terminal equipment. Subject to the Director's instructions.
40.	Unified messaging	Allows the subscriber to receive and send voice messages, speech, fax, SMS, e-mail, applications and multimedia files to and from a unified box, with the possibility of converting the information received from one format to another, and access to information from various means of access.	In the future	Availability of the service 99.9%	Dependent on the terminal equipment
41.	Telemetry command and control	Use of a telephone or cellular modem to receive announcements and to send commands pertaining to the operation of various devices (such as: alarm systems, inventory systems, traffic lights, controls etc.)	In place	Availability of the service 99%	
42.	Sponsored call	A call during which the subscriber is exposed to commercial advertising and information.	In the future		Subject to any law
43.	Video conference	Allows visual and audio communication between several users.	* 4/2004		Dependent on the terminal equipment. * In accordance with notice dated April 4, 2004

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44.	Instant messaging	A messaging service between members of a "community", organization, group of friends, group of persons with a common interest. The subscriber announces his being online and his readiness to receive messages. The service notifies the subscriber of the group member who is located in geographic proximity to him.	In the future		
45.	Surf & talk	Allows the subscriber to receive notice of and answer a call waiting while surfing the internet.	In place	Availability of the service 99%	Dependent on the terminal equipment. On GSM network only
46.	Personal information management	Access to and synchronization of a personal information database through the terminal equipment.	In place		Dependent on the terminal equipment.
47.	Memo	Sending of a voice message as a memo from the subscriber to any telephone on a public network.	* 1/2004		* In accordance with notice dated Jan. 8, 2004
48. ^{A67}	Filtering of offensive content and sites on the internet	Filtering of offensive content and sites while the subscriber is surfing the internet through his terminal equipment, in accordance with the provisions of Section 67G of the license.	4/12		The service is provided to subscribers who use the internet access service for no charge additional to the payment it collects from him for the internet access service.
49. ^{A75}	"Personal Message"	A short instruction, notification and warning of the Defense Agencies, sent immediately, selectively and in a focused manner to subscribers with cellular end equipment which supports use of cell broadcast ("CB") technology;	10/2014		Pursuant to the provisions of Section 65.B and the "personal message" service file

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50. ^{A67}	Premium Service at Premium Tariff	A premium service provided through a designated code allocated for such purpose (1-900, 1-901, 1-902).	2/2015		The service will be provided according to the provisions of Annex P.
51. ^{A67}	Premium Service at Regular Tariff	1) A premium service provided through: 2) A network access code – as an inter-network service; 3) Dialing a landline number – as a nationwide service.	2/2015		Landline number and regular tariff within the meaning thereof in Section 67D1 of the license.
	Safe network and blocking of malware	Protection against fishing threats, access to suspicious sites and prevention of malicious software activities / unwanted malware installed on the subscriber's end user equipment	Future		

The availability of the service is a percentage of the time during which the service is available, excluding the availability of the basic service.

^{A67} Amendment no.67

^{A67} Amendment no.67

Second Schedule – List of Appendices

Appendix A	Particulars of Licensee – not available to public;
Appendix B^{A16}	Engineering Plan - not available to public;
Appendix C^{A60}	Domestic Roaming;
Appendix D^{A43}	
Appendix E^{A16}	Level of Subscriber Services;
Appendix F^{A8}	Ordering Of A Service On The Website Of The Licensee Or A Service Provider;
Appendix G	Insurance Contract - not available to public;
Appendix H^{A16}	Bank Guarantee - not available to public;
Appendix I^{A35}	Special Services for security forces - not available to public;
Appendix J^{A6}	Access to International Communications Services;
Appendix K^{A7}	Discontinuation of Services for cellular end user equipments of IS-54 type;
Appendix L^{A12}	Special Services for security forces - not available to public;
Appendix M^{A12}	Security Instructions - not available to public;
Appendix N^{A16}	Letters of Undertaking - not available to public;
Appendix O^{A24}	Erotic Services

^{A16} Amendment no.16

^{A60} Amendment no.60

^{A43} Amendment no.43

^{A16} Amendment no.16

^{A8} Amendment no.8

^{A16} Amendment no.16

^{A3} Amendment no.3

^{A5} Amendment no. 5

^{A6} Amendment no.6 replaced Amendment no.4

^{A7} Amendment no.7

^{A12} Amendment no.12

^{A12} Amendment no.12

^{A16} Amendment no.16

^{A24} Amendment no.24

Appendix C – DOMESTIC ROAMING

1. In this Appendix

- "**Handover**"¹⁶ Continuity of a call during its transfer by means of cellular end equipment from the coverage area of a cellular radio center of one licensee to the coverage area of a cellular radio center of another licensee, in a continuous manner, without being disconnected or disrupted.
- "**Call**" Including SMS messages, data communication, cellular Internet surfing, use of applications and the like.
- "**Roaming Licensee's Subscriber**" Including a subscriber of a cellular licensee on another network, where such licensee utilizes a roaming licensee's network.
- "**Lockdown**" A state in which the end equipment of a roaming licensee's subscriber, who roamed to a host network, continues to receive service on the Licensee's network after the termination of the call, even if the roaming licensee has coverage in that area.
- "**Specifications**" The current 3GPP¹⁷ recommendations regarding domestic roaming as in effect from time to time.
2. The Licensee shall provide by means of its network to a roaming licensee a domestic roaming service, as stated in section 67E, in accordance with the conditions set out below.
3. The Licensee shall provide a domestic roaming service, as stated, by one of the following two methods:
- (a) Call transfer – The Licensee shall enable the transfer of a call which is being conducted by means of a subscriber's end equipment from a roaming licensee's network to the Licensee's network, when the roaming operator's network has no coverage in that area. After the transfer, the call shall be conducted on the Licensee's network up to its termination.
 - (b) Call setup – The Licensee shall enable the setup of a call on its network, by means of the end equipment of a roaming subscriber's licensee, if the roaming operator's network has no coverage in that area, or due to locking down of the end equipment of the roaming subscriber on the Licensee's network. Following its setup, the call shall be conducted on the Licensee's network up to its termination.
4. The Licensee shall determine the duration of the lockdown time in accordance with the requirement of the roaming licensee.

¹⁶ Handover.

¹⁷ 3rd Generation Project Partnership.

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5. The Licensee shall guarantee reasonable and equal conditions for every roaming licensee, as regards the provisions of cellular services by it, including the following:
- (1) **Prohibition on discrimination** – The scope, nature and quality of the services received by a roaming licensee's subscribers may not be inferior to those provided to the Licensee's subscribers. Insofar as the Licensee creates a distinction between categories of its subscribers, regarding the scope, quality or nature of its services, it shall allow the roaming licensee to maintain the same distinction for its subscribers.
 - (2) **Transfer** – The Licensee shall allow a roaming licensee's subscribers a one-way transfer, i.e. – from the roaming licensee's coverage area to the Licensee's coverage area, in a continuous manner, without disconnection or interruption of the call.
 - (3) **Advanced network** – The Licensee shall provide domestic roaming services to a roaming licensee by means of its most advanced network¹⁸ and within the lowest frequency utilized by it¹⁹; only if it does not have such coverage shall it provide the roaming licensee with domestic roaming services by means of a higher frequency range or by means of an earlier generation network²⁰, all according to the same priority as its own subscribers.
 - (4) **Range of services** – The Licensee shall enable a roaming licensee to provide the entire range of services the roaming licensee wishes to provide to its subscribers, subject to the host licensee's technical possibilities and provided this does not burden it unreasonably.
6. The Licensee shall cooperate with the roaming licensee, including by -
- (1) **Blocking sites** – The Licensee, at the roaming licensee's request from time to time, shall block the use by the roaming licensee's subscribers in specific coverage areas of sites of the Licensee in which the roaming licensee has coverage.
 - (2) **Dynamic update** – The Licensee shall update the roaming licensee on a regular basis regarding the data required for domestic roaming support, according to the roaming licensee's needs and in line with the expansion of its network, and regarding changes in the Licensee's network, including traffic data by sites, records of calls²¹, billing data of the roaming licensee's subscribers, malfunctions, changes in systems, etc., and the Licensee shall also update its systems, as necessary, according to the network data of the roaming licensee.
 - (3) **Location data** – The Licensee shall provide to a roaming licensee, on a regular basis, real-time location data of the roaming licensee's subscribers who are within the Licensee's coverage area. Such location data shall not be less than those received for the Licensee's subscribers.
 - (4) **Visibility** - The Licensee shall operate, to the extent possible, in such a manner that a roaming licensee's subscribers do not notice that they are receiving service through the Licensee.

¹⁸ UMTS / HSPA / HSPA+ and in the future LTE.

¹⁹ For example, a licensee operating UMTS networks within frequency ranges of 850/900 MHz and 2100 MHz, shall provide to the roaming licensee's subscribers services by means of the network within the 850/900 range according to the same priority as its own subscribers.

²⁰ GSM / GPRS / EDGE.

²¹ Call Details Record (CDR).

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- (5) **Switching** – The Licensee shall transfer all the outgoing and incoming calls through the roaming licensee's network, to enable the roaming licensee to provide to its subscribers all the services it wishes to provide to them, including signaling of failed calls.
 - (6) **Intelligent network** – The Licensee shall support, to the extent possible, intelligent network services provided by a roaming licensee.
 - (7) **Calls to emergency centers** – The call of a roaming licensee's subscriber to an emergency center set up on the Licensee's network shall be routed directly to the emergency center by the Licensee, unless the roaming licensee is able to route it to the appropriate emergency center according to the subscriber's geographical location.
 - (8) **Compliance with statutory provisions** – The Licensee shall cooperate with the roaming licensee for the purpose of complying with any statutory provision issued to any of them, where such cooperation is required by the existence per se of domestic roaming.
 - (9) **Handling malfunctions** – The Licensee shall repair malfunctions in its systems which impair or could impair the domestic roaming service level agreed upon between the Licensee and the roaming licensee²² or determined by the Ministry.
 - (10) **Prevention of information transfer** – The Licensee shall keep fully confidential any information relating to a roaming licensee, and shall prevent the transfer of any information relating to the roaming licensee from its employees and representatives who handle the operation of the domestic roaming to any other personnel of the Licensee, and particularly the Licensee's marketing and sales personnel.
7. The Licensee shall operate, with respect to domestic roaming, in accordance with the Specifications. Where any matter is not regulating in the Specifications, the licensees concerned shall act according to the best engineering practice²³.

²² Service Level Agreement (SLA).

²³ Best Engineering Practice.

Annex D – Preparing to Ensure Continuity of Operations in Emergencies

1. **Introduction**

- 1.1. The Israeli communications sector constitutes a vital national infrastructure both on a routine basis and in emergencies, and hence requires the License Holder to prepare to ensure **continuity of operations** in order to continue to provide its services also in emergencies.
- 1.2. The License Holder will implement a comprehensive work plan and will ensure its durability for functioning in emergencies, while ensuring continuity of operations to provide its services.
- 1.3. This annex constitutes a minimal action framework for the License Holder in order to maintain continuity of operations in emergencies, which includes a business continuity program (BCP) and a disaster recovery plan (DRP).

2. **Definitions**

- | | | |
|--|---|--|
| “ Interim Site ” | - | A site containing sub-systems of the network for performance of connection and control of end sites; |
| “ Alternative Site ” | - | A site held in a state of preparedness and intended for use in an emergency, at which the activity to ensure continuity of operations will continue; |
| “ Core Site ” | - | A main site which contains central systems of the network including switch, databases, computer systems, storage and a control and management center; |
| “ End Site ” | - | A cellular radio center on a license holder’s network; |
| “ Sharing Agreement ” | - | An active frequency sharing agreement, as defined in Section 19A of the license; |
| “ Recovery Target ” | - | A target determined by the License Holder for reinstating technological activity and support systems to a defined service level and within a defined time period; |
| “ Portable Site ” | - | A portable end site; |
| “ Continuity of Operations ” | - | Ensuring continuity of operations of the License Holder’s services, which includes a disaster recovery plan and a business continuity program; |
| “ Plan ” | - | Plan to ensure continuity of operations; |
| “ Business Continuity Program ” | - | Plan of action carried out by the License Holder in emergencies to ensure continuity of operations of processes that are defined as critical and of the communication, computer and storage systems (BCP). |
-

3. **Formulation of a plan to ensure Continuity of Operations**

- 3.1. The License Holder will formulate a plan to ensure Continuity of Operations which will assist it in emergencies to ensure its ability to operate continuously, to mitigate the harm to provision of its services and to recover its operations; the plan will include at least the following issues:
- (a) Analysis of risks to which it is exposed in emergencies, including an analysis of results, repercussions and implications for the ongoing and proper work of the infrastructures and of its services;
 - (b) Determination of service targets and Recovery Targets for emergencies, in accordance with the analysis of the risks and their implications for Continuity of Operations and continued provision of its services;
 - (c) The guidelines specified below in this annex, including the various plans specified below in this annex, while addressing the roles and responsibilities of various functionaries in the management of the emergency situation and actual implementation of the plan;
 - (d) Assimilation of the plan among the managers, employees, suppliers and subcontractors.

4. **Liability of the board of directors and the management**

- 4.1. The License Holder's board will approve the plan, while addressing the risks to Continuity of Operations and control thereof, as part of the comprehensive work framework for risk management, and shall instruct the License Holder's management to carry out the same.
- 4.2. The board of directors will discuss the Continuity of Operations issues upon significant technological changes and after a communication failure event, a significant failure in critical IT systems such as the billing system or the customer relationship management (CRM) system, provided that the Continuity of Operations issues are discussed at least once a year.
- 4.3. The License Holder shall appoint a Continuity of Operations manager and shall define his responsibilities and powers, which shall include ensuring implementation of the plan and adjustment thereof to technological changes, the existence of an assimilation plan, practice drills and lesson drawing as well as mapping and monitoring existing deficiencies and reporting thereon to the management.
- 4.4. The plan will be periodically audited by the internal auditor or a senior officer of the License Holder.
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4.5. The board of directors and the management will define periodic monitoring discussions, documentation and reporting format, within the company.

5. **Management of an emergency situation**

- 5.1. The License Holder shall appoint a senior executive to declare the transition from routine work to emergency work in a transition from routine to emergency procedure.
- 5.2. The License Holder shall operate a situation room in emergencies, which includes all of the resources required to manage the situation, including alternative means of communication which do not rely on the License Holder's network (the "**Main Situation Room**").
- 5.3. The License Holder will set up an alternative situation room at another site, at a distance of at least thirty (30) km from the Main Situation Room; the aforesaid notwithstanding, at the License Holder's written request, the Director may approve having an alternative situation room at a shorter distance.
- 5.4. The situation room will be used by the officers of the License Holder to manage the situation and to operate the plan of action for Continuity of Operations.
- 5.5. The License Holder will appoint a team to manage the emergency situation, to comprise, *inter alia*, the officers, key decision makers and technology professionals (communications and IT).

6. **Manpower, economic immobilization and emergency economy**

- 6.1. The License Holder will act vis-à-vis the Ministry of Economy for its recognition as an essential enterprise pursuant to the Emergency Work Service Law, 5727-1967.
 - 6.2. The License Holder will prepare manpower for every operating sector thereof which will allow it Continuity of Operations; the License Holder will validate the manning lists once a year.
 - 6.3. The License Holder will ensure regular working conditions and *inter alia*, on the following matters:
 - (a) Food, water, sleeping equipment for all of the manned sites;
 - (b) Equipment, protection, food and water for the field teams (field technician/field maintenance);
 - (c) Protected spaces/rooms (floor shelters/apartment shelters) and safe work areas.
 - 6.4. The License Holder will maintain one armored vehicle which will allow the activity of a field team. A license holder which operates more than 1,000 sites will maintain an additional armored vehicle; such vehicles shall be owned by the License Holder or supplied through a supplier.
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6.5. The License Holder will arrange for a transportation system for its employees to travel to and from its sites according to the manpower standard it has determined for each of its operating sectors as stated in Section 6.2.

7. **Continuity, backup and survivability of the network and the infrastructure**

- 7.1. The License Holder's network will comprise at least two Core Sites at a geographic distance of at least thirty (30) km; the aforesaid notwithstanding, at the License Holder's written request, the Director may approve having Core Sites at a shorter distance.
 - 7.2. The core systems on the network will operate on BCP architecture, insofar as the technology is available from the equipment manufacturer.
 - 7.3. The core of the network will be planned to have no single point of failure, a malfunction in which causes the malfunction of the entire network.
 - 7.4. The License Holder will operate a manned management and control center 24/7, 365 days a year, for the monitoring, control and operation of all of the network's components.
 - 7.5. The License Holder will set up an alternative management and control center at another geographic site at a distance of at least thirty (30) km; the aforesaid notwithstanding, at the License Holder's written request, the Director may approve having an alternative management and control center at a shorter distance.
 - 7.6. The alternative management and control center shall include all of the management and control systems required for Continuity of Operations of the License Holder's services independently, and will be available for immediate action.
 - 7.7. The License Holder will formulate a technological and engineering backup plan for the Core Sites which will enable Continuity of Operations in the event of a Core Site failure.
 - 7.8. The License Holder will formulate a technological and engineering backup plan for the Interim Sites which will enable Continuity of Operations in the event of an Interim Site failure.
 - 7.9. The License Holder will formulate a contingency plan (without actual rollout of additional infrastructures) which will be operated at failure events to link End Sites in accordance with criteria to be determined by the License Holder.
 - 7.10. In the event of a failure at the Core Site or an Interim Site, the backup plans will allow additional reception of at least fifty percent (50%) of the disconnected End Sites.
 - 7.11. The License Holder will formulate a plan for regular backup of data and information systems on a routine basis and in emergencies at another geographic site, at a distance of at least thirty (30) km; the aforesaid notwithstanding, at the License Holder's written request, the Director may approve an Alternative Site at a shorter distance.
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- 7.12. The License Holder will maintain backed up transmission infrastructures to link the Core and Interim Sites.
- 7.13. The License Holder will maintain four (4) Portable Sites which will substitute damaged End Sites, to expand coverage or increase capacity; such resources shall be owned by the License Holder. The aforesaid notwithstanding, in the event that the License Holder entered into a Sharing Agreement with another license holder, the License Holder may maintain the aforesaid together with the other license holder.
- 7.14. The License Holder will have the independent capacity to roll out and operate the Portable Sites, supply energy and transmission and connect them to the network within twelve (12) hours.
- 7.15. The License Holder will maintain reserve technical equipment for the entire technological system which will allow current continuous maintenance for at least three weeks, without the need to bring alternative equipment from overseas; such equipment shall be owned by the License Holder.
8. **Transmission infrastructures**
- 8.1. The License Holder will formulate a technological and engineering backup plan for the infrastructure and the transmission routes for Continuity of Operations of the transmission services, through landline or wireless transmission.
- 8.2. The License Holder will formulate a technological and engineering backup plan for the transmission infrastructure connecting the network to the core facilities of another general license holder and any license holder through which it provides the internet access service.
9. **Energy and electricity infrastructures**
- 9.1. The License Holder will prepare for energy and electricity backup, as specified below, for which purpose it may use a supplier:
- (a) Core Sites – alternative supply of electricity through batteries, generators, diesel oil containers and supply of diesel oil for continuous operation of at least forty-eight (48) hours;
 - (b) Interim Sites – alternative supply of electricity through batteries, generators, diesel oil containers and supply of diesel oil for continuous operation as specified below:
 - (1) An Interim Site which connects more than thirty-two (32) End Sites – for twenty-four (24) hours;
 - (2) An Interim Site which connects up to thirty-two (32) End Sites – for twelve (12) hours.
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- 9.2. The License Holder will prepare for energy and electricity backup at the End Sites for an alternative supply of electricity through batteries for two hours for each End Site whose activity is required to meet the coverage level set forth in the provisions of the license; such batteries shall be owned by the License Holder.
 - 9.3. The License Holder will maintain at least six (6) generators for continuous operation of End Sites in the event of a power outage; such generators shall be owned by the License Holder. The aforesaid notwithstanding, in the event that the License Holder entered into a Sharing Agreement with another license holder, the License Holder may maintain the aforesaid together with the other license holder.
 - 9.4. The License Holder shall enter into an agreement with a subcontractor for the repair and transportation of generators in emergencies.
 - 9.5. The License Holder shall enter into an agreement with a supplier for the supply of diesel oil for fuelling in emergencies.
10. **Data and system protection**
- 10.1. The License Holder shall formulate a data and system protection plan which shall include protection procedures and responses to data protection events.
 - 10.2. The data and system protection plan will be determined in accordance with the instructions of the Ministry and the security forces.
 - 10.3. The License Holder will determine the work procedures and rules for remote access upon a data systems event as part of the plan to ensure Continuity of Operations.
11. **Suppliers and subcontractors**
- 11.1. The License Holder shall ensure that the engagement agreements with the suppliers and the subcontractors regulate the duty of the supplier and the subcontractor to provide the services required by the License Holder to ensure Continuity of Operations in emergencies.
 - 11.2. The agreements shall include a plan to ensure Continuity of Operations at the supplier and the subcontractor, including manpower and the resources required to provide the service.
 - 11.3. The agreements shall include the participation of the supplier and the subcontractor in drills.
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12. **Reinstatement of service in emergencies**

- 12.1. In the event of a significant service interruption in an emergency, the License Holder will reinstate the service according to the reinstatement of service procedure; insofar as possible, the procedure will give priority to the reinstatement of service to vital bodies, including security forces and emergency services, hospitals, emergency centers and government ministries.
- 12.2. The procedure will be formulated such that reinstatement of the communication services will be according to the order specified below:
- (a) Dialing and maintaining a voice call between subscribers of the License Holder and between its subscribers and the subscribers of another license holder;
 - (b) National and personal messaging (cell broadcast);
 - (c) Surfing services;
 - (d) Sending SMSs between subscribers of the License Holder and between its subscribers and the subscribers of another license holder;
 - (e) The other services.

13. **Restoration of the service**

- 13.1. The License Holder will formulate a plan for restoration of its services which includes the following stages:
- (a) **Immediate restoration** – preplanned restoration; such restoration will be carried out within a very short time and almost automatically;
 - (b) **Interim restoration** – utilization of existing surplus capacity, including available alternative machines; such restoration will be carried out within several days;
 - (c) **Long-term restoration** – installation of new systems; such restoration will be carried out within weeks or months and is contingent on available equipment at the supplier and installation and construction capabilities.
- 13.2. According to the restoration plan, the service level of the various services provided by the License Holder will be determined.

14. **Assimilation and practice**

- 14.1. The License Holder will implement the plan to ensure Continuity of Operations among its employees by instructing and training them.
- 14.2. The License Holder will formulate a periodic practice drill plan which includes all of the scenarios and the critical processes included in the plan to ensure Continuity of Operations.
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- 14.3. The License Holder will carry out, within the company, a practical and comprehensive drill, once a year, with the participation of an internal control team which shall examine the License Holder's emergency preparedness; the License Holder will notify the Ministry of the date of holding of the drill at least thirty (30) days in advance thereof and will allow the Ministry's representatives to attend the same.
- 14.4. The conclusions of the drill will be provided to the License Holder's management to study and examine required updates to the plan to ensure Continuity of Operations; the conclusions of the drill will be provided in writing to the Director within thirty (30) days after the holding of the drill.

15. **Procedures**

- 15.1. The License Holder will formulate designated procedures for various emergency scenarios in the framework of the plan, as specified below:
- (a) Procedure for handling malfunctions and irregular events in emergencies and recovery therefrom;
 - (b) Procedure for skipping and transition to an alternative management and control center;
 - (c) Procedures for backup and survivability of Core and Interim Sites;
 - (d) Operation of portable resources procedure;
 - (e) Procedure for reporting to the Ministry in emergencies;
 - (f) Procedure for operation of the customer service system in emergencies;
 - (g) Procedure for protection and response against data protection events;
 - (h) Reinstatement of service in emergencies procedure;
 - (i) Transition from routine to emergency procedure.
- 15.2. The procedures will be approved by relevant officers at the company and will be updated once a year.

16. **Miscellaneous**

- 16.1. This annex will take effect no later than Tuesday, Elul 17, 5775 (September 1, 2015), with the exception of Sections 7 and 9, which will take effect no later than Tuesday, Adar A 21, 5776 (March 1, 2016).
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Appendix E – Minimum Requirements and Level of Subscriber Services^{A16}

1. System Performance

1.1 Definitions:

"**Population**" - the entire population in the area, according to the publications of the Central Bureau of Statistics

"**Layout Ratio**" - the ratio between the household rates in the peripheral settlements and the household rate in central settlements;

"**Central Settlement**" - A settlement defined by the Central Bureau of Statistics as a settlement of a "intermediate" level (clusters 5,6), at a "central" level (cluster 7) and at a "very central" level (clusters 8, 9, 10);

"**Peripheral Settlement**" - A settlement defined by the Central Bureau of Statistics as a settlement at a "very peripheral" level (clusters 1, 2, 3) and a "peripheral" level (cluster 4);

"**Street**" - the area (length x width) of any street whose number is up to 4 digits inclusive, and the national and local railroad route in the area of the State of Israel, during the license period; when the width of the street or the national and local railroad route shall include the actual width of the street/route + 5 meters from each side of the street/route;

"**Coverage Level**" - Broadcast and reception of electromagnetic signals which allow for the proper existence of any service to the mobile telephony communications end equipment, rising to a height of one and a half meters (1.5) above the surface;

In this regard, proper existence of the service shall be considered the service provided in the Coverage Area, while meeting the minimum requirements in regards to the service level, as specified in this Clause;

"**Area**" - the overall area regarding which the Law, jurisdiction and Administration of the State of Israel apply.

"**Blocked Calls**" - calls and data communication or links that cannot be established or messages that cannot be transferred immediately upon an order to establish contact due to unavailability of the network resources or resources for linkage between the network and other networks;

"**Dropped Calls**" - calls and data communications or links that were terminated not by the initiation of the subscriber who initiated the call / link or the call recipient.

1.2 Milestones for the establishment of the network:

(a) The network and its services shall meet the performances, features and indicators defined in the engineering plan – Appendix B, including an engineering plan attached to the Generation 4 Tender;

(b) The milestones for the establishment of the network and provision of service:

(1) canceled;

(2) network using Generation 4 technology:

2. ((a)) Stages and dates

Stage A at the end of 18 months from the determining date;
Stage B at the end of 36 months from the determining date;
Stage C at the end of 48 months from the determining date;
Stage D at the end of 24 months from the date of the manager's announcement;

"Determining Date" - date of amendment of the license

"Date of Manager's Announcement" - the date on which the manager shall provide the License Owner notice in writing regarding the performance of Stage D. The notice shall be provided after the end of 60 months from the determining date.

((b)) The License Owner shall operate to establish the Generation 4 network as follows:

((1)) shall submit a layout plan in a format set forth in the provisions of this Appendix no later than sixty (60) days after the Determining Date; the layout plan shall constitute part of the engineering plan.

((2)) the layout plan shall include the following data:

((a)) all of the settlements in Israel shall be detailed therein, in accordance with the Central Bureau of Statistics, divided into two groups – Central Settlements and Peripheral Settlements; the number of households in each settlement shall be stated next to the name of each settlement, and the total number households in central settlements and in peripheral settlements shall be stated; the planned date for the completion of the layout plan for each settlement shall be stated next to each settlement;

((b)) all of the Streets shall be detailed therein; next to each Street the number of the Street shall be stated and across from each Street, the planned date for the completion of the layout plan for that Street shall be stated.

((3)) The License Owner may update the layout plan and change the order of the settlements or Streets in which the network layout is planned by providing notice to the manager up to 60 days before the date the layout is planned, provided that the updated layout plan meets the provisions set forth in this Appendix.

((4)) The network layout pace shall be as follows:

((a)) at the end of one year from the Determining Date, the License Owner shall layout the network so that at the end of said period, there will be access to the network at a certain rate of households, according to the determination of the License Owner, provided that no later than 12 months from the Determining Date, the License Owner shall commence providing the service;

((b)) As of the beginning of the second year from the Determining Date, the License Owner shall layout the network at the Layout Ratio that is no less than one (1), and according to the following:

At the end of Stage A – coverage of 30% minimum requirements of the network coverage obligation, as stated in Clause 1.3(b)(1);

At the end of Stage A – coverage of 65% minimum requirements of the network coverage obligation, as stated in Clause 1.3(b)(1);

At the end of Stage A – coverage of 100% minimum requirements of the network coverage obligation, as stated in Clause 1.3(b)(1);

At the end of Stage A – coverage of 100% minimum requirements of the network coverage obligation, as stated in Clause 1.3(b)(1);

1.3 Minimum Requirements of the Obligation Network Coverage:

(a) In a 3rd generation technological network:

(1) The network's performance and services will be provided by meeting the coverage level and shall be no less than the following minimal requirements:

Service area: the area in which 99% of the population live, and no less than 92% of the area.

(b) In 4th generation technological network:

(1) in stages A through C, the network performances and services shall be supplied while meeting the coverage level, and shall be no less than the following minimum requirements:

((a)) **Service area:** an area in which 97% of the Population resides, and not less than 75% of the area;

(b) **Settlement:** each settlement separately, the coverage level shall be at least 90% of the settlement area.

(c) **Street / Route:**

((1)) 90% of the area of a single digit, double digit and triple digit street, national and local railroad route, including stations, road structures and operational areas and tunnels in each street or national and local railroad route;

((2)) 75% of the area of a four digit street and national railroad route for cargo trains.

(2) in stage D, the network performance and services shall be supplied while meeting the coverage level, and shall be no less than the following minimum requirements:

(a) **Service area:** an area in which 99% of the Population resides, and not less than 95% of the area;

(b) **Settlement:** each settlement separately, the coverage level shall be at least 95% of the settlement area.

(c) **Street / Route:**

((1)) 95% of the area of a single digit, double digit and triple digit street, national and local railroad route, including stations, road structures and operational areas and tunnels in each street or national and local railroad route;

((2)) 85% of the area of a four digit street and national railroad route for cargo trains.

3. (c) canceled.

1.4 **Service Quality:**

(a) **Blocked Calls and Dropped Calls:**

(1) a percentage of Blocked Calls at peak times shall not exceed two percent (2%) and the percentage of Dropped Calls at peak times shall not exceed two percent (2%).

(2) up to ten percent (10%) of all sectors shall allow for deviation beyond two percent (2%).

(3) **Amount of Blocked and Dropped Calls shall be measured in the following manner:**

((a)) the measurement shall refer to a one-hour time frame;

((b)) the peak time to which the measurement shall refer shall be the busiest time of the system, during the week, which is not a Hol Hamoed or holiday eve;

((c)) the measurement and the calculation of the percentage of Blocked or Dropped Calls shall be performed by the License Owner of each sector and the system in general. The data shall be presented in a graphical manner and shall be forwarded to the Ministry in the framework of the engineering system report.

(b)

(1) Reference signal reception level for 3rd generation Services shall be determined according to the most up-to-date ETSI/3GPP standards for 3rd Generation technology, allowing telephony services for outdoor coverage, according to the limiting channel from the increasing and decreasing channel;

The license holder shall perform prediction once per year for each sector and each cell. The data will be presented and delivered to the Ministry in the form of a national coverage map as well as in the format defined for the engineering sector report.

(2) The reception of a reference signal for Generation 4 services to networks on a broadband of 15/20 megahertz of signals received from descending/upward channel, according to the limiting of the two, under the ETSI²⁴ standard, according to a bandwidth of 5 megahertz, shall be:

Generation 4 network	Reception Range	
	Descending Channel	Upward Channel
1800 frequencies		-101.5 (Site in open area)
Megahertz		-93.5 (site in constructed area)

For indoor coverage – relief of 20db.

The examination shall be performed once per year by the License Owner for each sector and each cell. The data shall be presented and delivered to the Ministry by way of a national coverage map in the framework defined in the engineering system report.

(c) Service provision pace:

- (1) Canceled;
- (2) In regards to the proper existence of data communications in Generation 4, the record data pace per sector in the descending channel / upward channel:

Table 1		Record data pace (Mbps) in a network of 20 megahertz bandwidth
Data Upload		At least 100
Data Download		At least 50

Table 2		Record data pace (Mbps) in a network of 15 megahertz bandwidth
Data Upload		At least 80
Data Download		At least 40

The License Owner shall measure once per quarter the provision of record service pace and shall present the data and the method of examination in the framework of the engineering system report.

2. Customer and Subscriber Services Quality Measures

- 2.1 **Service to provide information to customers and subscribers:** will be provided through a telephone call to a call center, on the license holder's website, by e-mail and by facsimile; such service may be provided also through a representative in a service station open to the public, through an IVR system, SMS, chat or by regular mail. ^{A69}

²⁴ http://www.etsi.org/deliver/etsi_ts/136100_136199/136104/10.01.00_60/ts_136104v100100p.pdf

Tables 7.2.1-3, 7.2.1-2, 7.2.1-1

http://www.etsi.org/deliver/etsi_ts/136500_136599/13652101/11.02.00_60/ts_13652101v110200p.pdf

Table 7.3.3-1

^{A69} Amendment No. 69

2.2 Standards for accessibility and provision of information:

(A) ^{A56}A call center will be manned twenty four (24) hours a day, for receiving calls regarding theft or loss of cellular end-equipment, a network malfunction leading to termination of cellular service to the subscriber and the "international roaming service", all days of the week except on Yom Kippur.

^{A73}For the purpose of inquiries regarding an international roaming service – the licensee is required to allow any subscriber who is Abroad to contact the said call center free of charge, provided that the inquiry is made via a telephone number which is on the licensee's network. The licensee shall publish the telephone number for calls from Abroad on its website.

(B) The telephonic call center shall be manned for at least ten (10) hours on weekdays, and at least five (5) hours on Friday, holiday eves and Chol Hamoed Sukkot and Passover for the receipt of notices regarding malfunctions in the receiving MTS services, which are not a malfunction as stated in subsection (a) and in regards to the services of the license owner, and shall operate continuously as of 08:00 a.m.

(C) The reply at the call center will be within a reasonable time. Should the Director observe that the waiting time at the call center is not reasonable, he may set measures for response time.

(D) A caller to a call center during unmanned hours will be referred to a message box to leave a message, and will receive a reply on the following day.

(E) The Licensee will operate additional channel allowing subscribers to contact it for provision of information and for queries, such as:

- Computerized voice system IVR;
- queries via post;
- queries via fax;
- queries via e mail.

(F) The Licensee will publish its service office address and telephone number of the call center in the following ways, among others:

- In the engagement agreement with the subscriber;
- In the bills sent to the subscriber;
- In any document sent on behalf of the Licensee to the subscriber in a matter relating to customer services;
- In telephone directories and in telephone information centers.

(G) ^{A58}The Licensee may not use a telephone number with a cell phone area code for a fax service for the purpose of receiving complaints from the public.

^{A56} Amendment No. 56

^{A56} Amendment No. 56

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

- (H) ^{A58} Access to all call centers for reporting malfunctions, loss or theft (hereinafter – problem reporting center") will be via a toll-free service (1-800 service). The Licensee will enable access to the problem reporting center from any national domestic network.
- (I) ^{A58} Subject to that stated in subsection (h), access to all call centers for matters pertaining to the Licensee's services will be by means of each of the following:
- (1) A network number to which access is free of charge;
 - (2) A split-charge call service (1-700 service) or a toll-free service (1-800 service).

2.3 Bills to Subscribers

- (A) Bills to subscribers will set out the relevant details for such bill, out of the following:

- (1) monthly charge (fixed charge)
- (2) duration of calls or air time (minutes, seconds)
- (3) volume of data use (MB,kB) – if the service provided is charge by volume of data transmitted.
- (4) Other charges (such as for receipt of data, SMS transmission, mobile electronic commerce).
- (5) Combination of the above charge methods.

- (B) Structure of the Bill

Bills will be sent in a fixed form, as follows:

- (1) Following payment; the bill will serve as a receipt, including:
the amount for payment not including VAT, rate of VAT and total for payment including VAT. In this section, the identifying particulars of the Licensee will be specified, and the identifying particulars of the subscriber.
- (1) The Licensee may include information regarding deals and personal notices to the subscriber.

- (C) Production and delivery of bills

- (1) The Licensee will produce monthly bills for its subscribers or at any other time with subscriber's consent.
- (2) A subscriber who wishes to terminate its contraction with the Licensee shall receive a final bill on the nearest possible date, and no later than two months after the termination date. ^{A61} Where the subscriber and the Licensee agreed on payment in installments for end-equipment purchased by the subscriber from the Licensee, and the subscriber's contract with the Licensee is cancelled before the subscriber has paid all the installments on the Goods which he purchased or rented from the Licensee, the Licensee will send the subscriber a final invoice for the Licensee's services, and thereafter the Licensee will be entitled to send the subscriber invoices only in respect of the debit for the Goods. ^{A58}

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A61} Amendment No. 61

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

A final invoice will be titled 'Final Invoice'.

(3) Void ^{T52}

(4) Following the collection of the payment amount as specified in the Final Bill, the license owner may not collect from the subscriber, by way of the payment method provided by him, any payment that is not for Goods, without the explicit consent in writing and in advance of the subscriber. The license owner shall preserve a copy of the consent of the subscriber, as stated, and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date provided to the license owner.

2.4 ^{A43} Measures for Handling Public's Applications

(A) Level of handling a written complaint – The response times for complaints will be up to 14 workdays; the response for 5% of complaints will be within a month.

(B) Measures for quality of service of the service centers –

- 90% of applications will be handled directly by the service representatives, up to completion.
- Not more than 10% of applications, some due to escalation of complaints, will be referred to more senior levels.

(C) Applications clarified by the senior level – In any case where the Public Ombudsman's reply to a complaint does not satisfy the applicant, the application will be passed on to the managerial level, which will examine it again and reply directly to the applicant. In any event, the applicant will receive a response within 30 days from the day of his application.

2.5 ^{A70} Manner of Use of an Electronic Graphic Signature

(a) **Identification of subscriber** – the Licensee shall identify the subscriber before modifying an engagement agreement or having him sign a new engagement agreement, through a photo-bearing I.D. or a power of attorney together with an I.D. of the attorney.

(b) **Use of a digital screen** – the Licensee shall allocate for the subscriber's sole use, throughout performance of the transaction until completion thereof, a digital screen, and shall allow the subscriber reasonable time to inspect the entire agreement and to understand the content thereof before being required to sign the same.

(c) **Signature by the subscriber** – the "access to services form" and the documents relevant to the agreement shall be marked and signed only by the subscriber.

(d) **Fixed signature** – each signature will be separately locked and fixed in place, with the unique characteristics thereof, such that it will be possible to prove that this signature is not the result of the "copying and pasting" of another signature of the subscriber signed elsewhere in the engagement agreement or in other documents. Further to the aforesaid, each signature shall have an information layer in addition to the signature – which shall document the exact time of the signing thereof (precise date and time accurate to within a second).

^{T52} Amendment No. 52.

- (e) **"Locking" of an agreement** – Upon completion of the execution of the entire agreement, the agreement document shall be "locked", such that it will be possible to identify any modification of the agreement after the date of signing. The "locking" of the agreement by a secured electronic signature or an approved electronic signature ("Electronic Signature") of the Licensee, within the meaning thereof in the Electronic Signature Law, 5761-2001, immediately after the execution thereof by the subscriber, shall be deemed as reasonable means of locking the agreement and protecting it against changes.
- (f) **Document Retention** – the Licensee will retain documentation of any and all of the agreement documents in accordance with the requirements of Section 113.1 of its license, and shall regularly take measures to prevent the undocumented addition or omission of documents to the electronic archive system. A Licensee will take the necessary measures and processes in order to ensure that the content of the agreement is retained without modification from the date of the drafting thereof and throughout the retention period, considering technological changes or changes in the encryption methods used to retain documents. A Licensee may prove to the Ministry at any time that it took such measures and processes.
- (g) **Receipt of a copy of the engagement agreement** –
- (1) The subscriber may choose between two options for the receipt of documents at the time of consummation of the transaction (by checking one of two boxes):
 - ((a)) Box one – to receive only the "plan summary";
 - ((b)) Box two – to receive the full signed agreement.
 - (2) The subscriber shall confirm his choice by his signature. The space for the signature shall be adjacent to the said two boxes.
 - (3) A subscriber who requests to receive only the "plan summary " will need to state his e-mail address or his fax number, to one of which the full signed agreement shall be sent (including plan summary).
 - (4) The e-mail address or the fax number to which the full agreement shall be sent will be typed in by the sales representative (on his own keyboard).
 - (5) The address or fax number shall appear beneath and adjacent to the said boxes.
 - (6) The subscriber shall confirm by an additional signature that this is the e-mail address or fax number, to one of which the agreement shall be sent.
 - (7) As a consequence of the aforesaid: any subscriber who does not have an e-mail address or a fax shall receive the full agreement at the time of consummation of the transaction.
- (h) **Identification of the representative** – any agreement shall include unequivocal identification of the representative who had the subscriber sign (full name and signature).
- (i) The license owner shall preserve a copy of the contracting agreement and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date of contracting.
- (j) If the subscriber requests to make a change to the terms and conditions of the engagement agreement, including a request to receive an additional service, to cancel a service, or to join a service plan – printed notice bearing the name or logo of the Licensee shall be delivered to the subscriber upon the request for the change, stating the details of the change made, the date of its taking effect and the full name of the Licensee's representative and the subscriber and their original signatures. The license owner shall preserve a copy of the contracting agreement and shall make it available for delivery or transfer to the manager, at his request, within five (5) business days from the date of contracting.
- (k) **Cold Calling** – the rules specified above shall also apply to cold calling.

Appendix E1 T52 - Fair Disclosure in Telephone Bills

General

1. The telephone bill (hereinafter referred to in this Appendix as the “**Bill**”) to be presented by the licensee to a subscriber shall be clear, legible and comprehensible; the Bill shall include accurate details about the components of the charge demanded in NIS, as set forth in this Appendix.
 - 1a. The telephone Bill shall include the payments for all services and all goods presented in the Main Points of the Plan.
2. The Bill shall include the following parts:
 - A. “Billing Summary”;
 - B. “Billing Details” including:
 - 1) Details of fixed charges, variable charges, one-time charges, credits and reimbursements, within the meaning in section 8 E of this Appendix;
 - 2) Information on usage patterns;
 - C. “Call Details”.
3. The Bill shall be constructed using a bottom-up method, with its bottom level being Part C - “Call Details”, above it Part B - “Billing Details” and at the top level Part A - “Billing Summary”.
4. The Company name and logo shall be displayed on each page of the Bill, including on the “Call Details”.
5. The licensee shall issue a “Billing Summary”, “Billing Details” and “Call Details” for each telephone number separately. The licensee may issue to a subscriber holding several telephone lines one “Billing Summary” to refer to all the telephone numbers in the possession of the subscriber, provided that the “Billing Summary” sets forth each of the telephone numbers to which the Bill relates (see examples 1 and 2). “Call Details” and “Billing Details” shall be issued by the licensee for each telephone number separately. Notwithstanding the above, a subscriber in possession of several telephone numbers may demand from the licensee to receive a separate “Billing Summary” for each telephone number in his possession. In this regard, a PRI line shall be deemed one telephone number.

^{T53)} Amendment No. 52.

6. Amounts in the Bill shall be rounded off and shall be set forth according to the provisions of section 2.2.2 of Israeli Standard 5262 - "Honesty in Billing and Fair Disclosure in Telephone Bills" (hereinafter referred to in this Appendix as the "**Standard**") and the provisions of the General License on this matter. It should be clarified that in respect of the manner of calculating the billing amount, in contrast to the manner of presenting the "Call Details", and the "Billing Details", as determined in the provisions, the licensee must calculate this pursuant to the tariff provided in the Regulations, with no rounding off.
7. The Ministry of Communications' website in the section on "General Licenses" has examples of telephone bills drawn up pursuant to the detailed provisions of this Appendix (hereinafter referred to in this Appendix as the "**Examples**"). The Examples are based on telecommunications agreements and tariff plans marketed in 2008 by the general licensees. The examples are for the sake of illustrating the mode of implementation of the provisions only. In the case of any inconsistency between the provisions and the Examples, the binding version is that in the provisions.

Part A - "Billing Summary"

8. The following details shall be presented in the "Billing Summary":

A. Subscriber Details -

- 1) First name;
- 2) Surname;
- 3) Address and email address;
- 4) Customer number;
- 5) Telephone number and/or PRI line number by means of which the services on account of which the Bill is presented to the subscriber were provided;

B. Licensee Details -

- 1) Company name;
- 2) Company management address;
- 3) Customer service telephone and facsimile numbers;
- 4) Company website address.

(c) Dates –

- (1) Date of preparing the bill;
- (2) Manner of delivery of the bill;
- (3) Term of the bill;
- (4) Last date for payment of the bill – regarding the bill paid not by way of automatic debit from the bank account or credit card;
- (5) The date on which the method of payment shall be charged – in regards to the bill paid by way of automatic debit from the bank account or credit card.

D. Notices to Subscriber

- (1) Notice regarding the option to submit a complaint to the Ombudsman at the License Owner, and regarding the authorities and methods of reference thereto as specified in Sections 61.3 and 61.4.
- (2) Address, telephone number, facsimile number and email address by which the subscriber may submit a request to the license owner for termination of service, disconnection of service, termination of contract or to deliver to it a notice of cancelation, as it means in Section 13d of the Consumer Protection Law, 1981.
- (3) Information on offers and personal notices to the subscriber, at the decision of the licensee.

E. Billing charge inclusive of VAT, as set forth below:

- 1) Fixed charges - charges applying to the subscriber not dependent on the scope of usage;
- 2) Variable charges - charges applying to the subscriber dependent on the scope of usage;
- 3) One-time charges, such as charges for "Exit Fee", linkage and interest differentials charge for a monetary debt, charge for collection expenses, etc. (hereinafter referred to in this Appendix as "**One-Time Charges**");
- 4) benefits /credits, such as a benefit of providing service at a discount or free of charge for a fixed period or a benefit of providing a discount for the entire rate plan for a fixed period, **benefits** / credit for a subsidy on terminal equipment, etc. (hereinafter referred to in this Appendix as "**Credits**");
- 5) Financial reimbursements for overcharges and interest and linkage differentials for overcharges (hereinafter referred to in this Appendix as "**Reimbursements**").
- 6) Purchase of goods.

F. Total payment amount will be presented as set forth below:

- 1) Total payment amount exclusive of VAT; the amount shall be calculated according to the charges summary presented in the "Subtotals Summary" and the "Billing Summary";
- 2) VAT amount;
- 3) Total payment amount, plus VAT.

F. All charges appearing in the "Billing Summary" shall be presented as a decimal number in New Israeli Shekels to a degree of accuracy of two digits after the decimal point.

Part B - "Billing Details"

9. Part 1 of the "Billing Details" will include information on fixed charges, variable charges, One-Time Charges, Credits and Reimbursements, as set forth below:
 - A. "Billing Details" will include general information on the tariffs plan according to the terms of which the subscriber is charged, including the date of entry of the rate plan into force, details of its main tariffs, inclusive of VAT. If the payment or rate level for the services purchased by the subscribers are supposed to be modified or that the provision of benefits which the subscriber received are supposed to end, the license owner shall stated the new payment or rate levels for said services or the said benefit level, which include VAT, or the new usage unit amounts as well as the date of entry of the modifications into force.
 - B. If the subscriber's agreement includes a commitment period the licensee must note on every bill in the "Billing Details" the following details:
 - 1) The duration of the commitment period and its date of expiration; the provisions of this subsection shall not apply in respect of a transaction where there is no obligation to give a collection notice as stated in section 13A(d)(2)(b) of the Consumer Protection Law, 5741-1981.

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- 2) The payment the subscriber will be asked to pay if he requests to terminate his agreement with the licensee prior to the expiration of the commitment period to the company or the tariff plan (“**Exit Fee**”) in the course of the billing period following the present billing period (hereinafter referred to in this Appendix as the “**Subsequent Billing Period**”). In the event that the amount of the Exit Fee changes throughout the Subsequent Billing Period, the time point of reference for determining the amount of the Exit Fee shall be the middle of the Subsequent Billing Period (see Example 1).
 - 3) Cancelled.
 - 4) The licensee will present to the subscriber written details in respect of the mode of calculation of the Exit Fee within 14 days of the date the subscriber submitted a request to the licensee’s customer service center or the ombudsman.
- C. “Billing Details shall be presented by means of a table composed of columns and rows, as set forth in the Examples.
- D. Each service provided to the subscriber in the course of the Billing Period shall be presented in the “Billing Details” in a separate row, with the following details:
- 1) Name of service; the name of the service shall identify as clearly and as accurately as possible, the service provided to the subscriber; respecting a service provided to the subscriber not by means of the licensee, the licensee shall present the details of the service provider, including its name and a telephone number by means of which it can be contacted;
 - 2) Quantity for a service unit; quantity measured in time will be presented in the form of mm:ss (minutes: seconds). Quantity measured by data volume will be presented as a decimal number in MB to a degree of accuracy of at least 3 digits after the decimal point. The quantity of internet pages viewed or text messages will be presented as a natural number.
 - 3) Tariff for a service unit; the tariff will be presented as a decimal number in New Israeli Shekels, to a degree of accuracy of at least 3 digits after the decimal point. The tariff is composed of several payment components, such as one tariff for the licensee’s services and a second tariff for reciprocal link or for international phone service, will also be presented as one inclusive tariff (see Examples 1 and 2). Calls in respect of which the tariff varies in the course of performance, such as a transition from off-peak to peak rates and from peak to off-peak rates, a change in tariff in the course of a conversation, including a conversation started within the scope of a “pay as you go” plan and exceeding the minutes in the course of performance, will be presented collectively within the “Calls at Variable Tariff in the Course of a Call” service; the tariff will be presented under the column “Average Tariff” and will be calculated by dividing the charge amount in the “Subtotal Row”, within the meaning in section 11I of the Appendix by the quantity (see Example 5 - Version A).

Rate of a calendar time unit¹¹; - the rate shall be represented as a decimal number in NIS with a level of accuracy of 2 digits after the decimal point.

To the extent that a call in the "Calls at Variable Tariff in the Course of a Call" is presented as set forth in the concluding part of section 11L below, the "Average Tariff" will not be required to be presented and the tariff will be presented according to each segment separately (see Example 5 - Version B).

- 4) The debit amount; the debit amount shall be calculated according to the multiplication of the rate amount and shall be presented as a decimal point with a level of accuracy of 2 digits after the decimal point.
 - 5) In the event that there is also a fixed charge for each individual call, the number of calls made and the fixed tariff per call shall also be presented in the same row and the charge amount shall be calculated by multiplying the number of calls by the fixed charge tariff per call plus the quantity multiplied by the tariff (see Example 4).
- E. The "Fixed Charges", "Variable charges" "One-Time charges", "Credits", "Reimbursements" and "Linkage differences and interest" as specified in sections 60.8 and 83A ^{A58}, shall each be presented in the "Billing Details" in a separate group (see Examples 3 and 5).
- F. The licensee shall notify the subscriber in the Bill of his option to request written details in respect of the mode of calculation of ^{A58} the "One-Time Charge"; the licensee will furnish the subscriber with such written details within 30 days of the date of submission of a request by the subscriber on the matter to the licensee's customer service center or the ombudsman (see Examples 3 and 5).
- G. Charges may also be noted in the "Billing Details" for sale of terminal equipment and charges for services which are not telecommunication services.
- H. The "Billing Details" shall include subtotals of charge amounts inclusive of VAT, for fixed charges, variable charges, One-Time Charges, Credits and Reimbursements ("**Subtotal Row**"). The debit amount for any **Subtotal Row** shall be transferred from the "account detail" to "account summary".
- I. The final debit amount shall be presented when it includes VAT.
- J. Cancelled.

¹¹ One month, two months, etc.

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

^{A58} Amendment No. 58 (inception: this amendment will come into force on March 13, 2011).

- K. All charge amounts appearing in the "Billing Details" will be presented as a decimal number in New Israeli Shekels to a degree of accuracy of two digits after the decimal point.
 - (l) The license owner may not present in the account details rates and debit amounts without VAT
10. In Part 2 of the "Billing Details" the licensee shall present in graph form or in any other manner in respect of each telephone number to which the telephone bill relates information about usage patterns, as set forth below:
- A. The rate of utilization of each package of services included in the tariffs plan to which he is a subscriber, including packages of services granted to a subscriber within the scope of the fixed charge including international roaming packages;
 - B. Details of charges according to categories of services;
 - C. Distribution of call minutes and text messages according to categories of licensees on whose network the call was completed (internal network, external network according to category of licensee - mobile radio-telephone, internal domestic fixed line telephony).

Part C - "Call Details"

11. The details set forth below shall be presented in the "Call Details":
- A. "Call Details" shall include information about all the services provided to the subscriber in the period to which the Bill relates.
 - B. Each "category of service" shall be set forth in a separate group under the heading of the service name, with each item in the "category of service" being presented in a separate row, pursuant to the provisions of subsection 11E. Respecting PTT services, no details are required for each call separately.
 - C. Presentation of data in relation to each "category of service" appearing in the "Call Details" will be carried out in ascending chronological order.
 - D. "Call Details" will be presented in table format pursuant to the details in the Examples.
 - E. In respect of each item appearing in the "Call Details", at least the following data shall be noted:
 - 1) Date of performance;

- 2) Time (hh:mm:ss);
 - 3) Call destination (if any);
 - 4) Quantity for a service unit;
 - 5) Tariff inclusive of VAT, to a decimal number in New Israeli Shekels to a degree of accuracy of at least 3 digits after the decimal point.
 - 6) Charge amount inclusive of VAT, to a decimal number in New Israeli Shekels to a degree of accuracy of at least 2 digits after the decimal point.
- (E1) Despite the aforementioned in subsection (e), the License Owner may not present the surfing details performed daily, but rather the overall amount of the surfing volume consumed daily. The license owner shall preserve documentation of the surfing details performed daily and shall forward them to the subscriber at his request.
- F. The tariff presented shall be the tariff according to which the subscriber is charged, *viz.*, for example, after a discount, if any, the cheaper tariff offered to the subscriber within the scope of any offer, etc.
- (F1) The license owner may not present the rates and debit amounts without VAT.
- G. The quantity, tariff and charge amount will be presented in adjacent columns if possible, so that the quantity multiplied by the tariff will give the charge amount. If there is also a fixed charge per call the quantity of calls made and the fixed charge per call shall be presented and the charge amount will be calculated by the quantity of calls multiplied by the fixed charge tariff per call plus the quantity multiplied by the tariff (see Example 4).
- H. Quantity measured by time will be presented in the form of mm:ss (minutes: seconds); quantity measured by data volume will be presented as a digital number in MB when the data volume allotted to the subscriber for the bill period is up to 1 GB, and in GB when the data volume allotted to the subscriber for the bill period is greater than 1 GB, to a degree of accuracy of at least 3 digits after the decimal point; the quantity of internet pages viewed or text messages will be presented as a natural number.
- I. Any "Category of Service" appearing in the "Call Details" will include a summary row in which will be set forth only the total quantity for which the subscriber is charged (hereinafter referred to in this Appendix as the "**Subtotal Row**"). The total amount in the subtotal row shall be transferred from "call detail" to "account detail"
- J. Cancelled.

TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION

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- K. The presentation of each Subtotal Row shall be made in a prominent manner.
- L. A call whose tariff is variable in the course of performance thereof, such as a transition from off-peak to peak rate or from peak to off-peak rate, a change in tariff in the course of the conversation, including a conversation starting within the scope of a “pay as you go” program and exceeding the minutes in the course of performance thereof, will be presented within the scope of “Calls at Variable Tariff in the Course of a Call”; the tariff will be presented under the column “Average Tariff” and will be calculated by dividing the charge amount into the quantity (see Example 5 - Version A). A call whose tariff is variable in the course of performance thereof may also be presented in another form in which the charge tariff, the quantity and the charge amount, as well as the total charge of the call will be presented in respect of each segment of such call (see Example 5 - Version B).
- M. The licensee may provide a subscriber making an express request, with Call Details in chronological order in which the calls were provided with no separation between categories of services, provided that it notifies the subscriber within the scope of the “Call Details” that he may receive “Call Details” also pursuant to the format determined in section 11(b).

A73 Annex E2 – Access to Services Form

Form for Access to Services through the Cellular Device that are Billed in the Telephone Bill

Name of the license holder
Methods for submission of the form:
Address
E-mail address
Facsimile no.
Date: _____

I, whose details are stated below, request access to the services specified below, for the telephone number stated in this form, as follows:

The Subscriber's Details

The subscriber's name / the company's name: _____ I.D./P.C. _____ Address: _____ Telephone number: _____

Check according to your choice and sign. Please be advised that partial checking and signing means that the possibility of receiving the service will be blocked.

No.	Type of Service	Blocked	Open	
1.	<p>Cellular internet surfing service abroad <u>without</u> a surfing package / plan abroad</p> <p>(a) This section is intended for <u>business subscribers only</u>.</p> <p>(b) The subscriber funding the surfing abroad <u>at his own expense</u> shall be blocked from surfing abroad and shall not be charge for it if he does not have a surfing package / plan abroad;</p> <p>(c) Blockage does not prevent surfing by Wi-Fi;</p> <p>Marking "open" in this section does not include opening the services in Jordan and in Egypt.</p>	<input type="checkbox"/>	<input type="checkbox"/>	
2.	<p>One-time content and/or information service</p>	a. One-time receipt or downloading of content via the internet, viewing and/or listening thereto (such as: one-time downloading or viewing of a video, listening to a song, downloading a ringtone, downloading a video, downloading a game).	<input type="checkbox"/>	<input type="checkbox"/>
		b. One-time sending of a special rate text message to vote in a program broadcast on television (such as: one-time voting in a reality show).	<input type="checkbox"/>	<input type="checkbox"/>
		c. One-time giving of a donation by sending a text message (such as: a one-time donation to an association).	<input type="checkbox"/>	<input type="checkbox"/>
		d. Receipt of useful information on a one-time basis (such as: information regarding transportation lines, professionals, financial information, notice regarding the receipt of certified mail, and all on a one-time basis)	<input type="checkbox"/>	<input type="checkbox"/>
	e. Receipt of content on a one-time basis (such as: quiz, lottery, survey, poll, astrological forecast, receipt of a link for downloading a video, and all on a one-time basis)	<input type="checkbox"/>	<input type="checkbox"/>	
3.	<p>Continuous content and/or information service – subscription</p>	a. Receipt or downloading of content via the internet, viewing and/or listening thereto other than on a one-time basis (such as: a subscription to download or view videos, a subscription to a music service, a subscription to download ringtones, a subscription to download videos and a subscription to download games).	<input type="checkbox"/>	<input type="checkbox"/>
		b. Receipt of content and/or information other than on a one-time basis (such as: a subscription to receive news updates, a subscription to receive sports results, a subscription to receive trivia questions and a subscription to receive diet recipes).	<input type="checkbox"/>	<input type="checkbox"/>

In an engagement in the presence of a representative of the licensee – I represent that this form has been marked and signed by

Name of the licensee's representative: _____ Signature of the licensee's representative: _____ The subscriber's signature: _____

APPENDIX F – ORDERING OF A SERVICE ON THE WEBSITE OF THE LICENSEE OR A SERVICE PROVIDER^{A61}

1. **Ordering a Service from the Licensee**

1.1 **Ordering a Service from the Licensee**

The ordering of a service on the Licensee's website or on its cellular portal (both hereinafter – the "**Site**") shall be done according to one of the alternatives detailed in sections 1.2 or 1.3.

1.2 **Random Code**

- (a) The subscriber shall enter on the Site, in the place designated for that purpose, his subscriber number²⁵.
- (b) If the subscriber is blocked for the service, the Licensee shall send the subscriber an SMS notifying him that he is blocked for the type of service that was ordered, and that he can apply to the Licensee to remove the block for that type of service.
- (c) If the subscriber is not blocked for the service, the Licensee shall send the subscriber an SMS including the following:
 - (1) The name of the service including its classification as "one-time" or as "continuing."
 - (2) The price of the service. The price shall be displayed in a detailed manner, including details concerning a "one-time" payment, a "fixed" payment for a specific period, including specification of the period, and the unit price according to which the payment for the service is measured.
 - (3) A random code of five (5) digits (hereinafter – the "**Sent Code**").
- (d) The subscriber shall enter on the Site, in the place designated for that purpose, the Sent Code.
- (e) The Licensee shall compare the Sent Code and the code entered by the subscriber as stated in subsection (d) (hereinafter – the "**Entered Code**").
- (f) If the Entered Code is identical to the Sent Code, the Licensee shall send the subscriber an SMS notifying him that his registration for the service was approved, and in the case of a continuing service – information concerning the manner in which it is possible to cancel the registration for the service.
- (g) If the Entered Code is not identical to the Sent Code, the Licensee shall send the subscriber an SMS notifying him that his registration for the service failed due to such non-identity.

^{A61} Amendment No. 61

²⁵ Mobile Subscriber Number (MSN).

1.3 **User Code and Password**

- (a) The Licensee shall display on the Site, next to the place designated for ordering the service, prominently and in a clear and legible manner, the following details:
 - (1) The name of the service including its classification as "one-time" or as "continuing." In the case of a continuing service – information concerning the manner in which it is possible to cancel the registration for the service.
 - (2) The price of the service. The price shall be displayed in a detailed manner, including details concerning a "one-time" payment, a "fixed" payment for a specific period, including specification of the period, and the unit price according to which the payment for the service is measured.
- (b) The subscriber shall enter on the Site the user code and the password set or approved for him by the Licensee (hereinafter – the "**Identity Code**").
- (c) If the subscriber is blocked for the service, the Licensee shall display to the subscriber a message addressed exclusively to him on the Site, notifying him that he is blocked for the type of service that was ordered, and that he can apply to the Licensee to remove the block for that type of service.
- (d) The Licensee shall compare the Identity Code and the user code and password set by it for the subscriber and saved in its system (hereinafter – the "**Saved Code**").
- (e) If the Identity Code is identical to the Saved Code, the Licensee shall provide the service to the Licensee.
- (g) If the Identity Code is not identical to the Saved Code, the Licensee shall send the subscriber a message addressed exclusively to him through the Site, notifying him that his registration for the service failed due to such non-identity.

2. **Ordering a Service from a Service Provider**

2.1 Order of service from the website of the service supplier shall take place as specified below:

- (a) Contracting with a service provider as defined in Section 60.6 for the receipt of its services, shall take place only by way of the website of the service provider (hereinafter – the "**Supplier's Website**")¹².
- (b) The first detail which the subscriber shall be required to type on the Supplier's Website, in the intended place for it shall be – the method of payment customary to him for payment for services provided by the license owner or on its behalf – (Pre-paid) or (Post-paid);

¹² It is forbidden to contract with a service provider in response to an offer set to end user equipment, or by way of notice sent from end user equipment.

- (c) A subscriber, who pays his telephone bills post-paid shall be required to type the following on the Supplier's Website:
- (1) "Cancelled";
 - (2) The subscriber's identification number;
 - (3) The subscriber's telephone number, which shall be charged for the consumption of the service;
 - (4) The last four digits of the payment method (the number of the credit card or the number of the bank account).
- (d) A subscriber, for whom the pre-paid method of payment is implemented, shall type the following on the Supplier's Website:
- (1) The telephone number from which the service consumption can be debited from the outstanding balance;
 - (2) In the event that the charging was made by way of a dialing card – the last four (4) digits of the dialing card number; in the event the charging was made by way of a credit card – the last four (4) digits of the credit card number.
- (e) The service provider shall forward to the license owner a notice, which includes that detailed in subsection (c) or (d), as applicable, as well as the following:
- (1) The name of the service, including the classification of the service as a "one-time" payment service or as a "continuous" payment service;
 - (2) Service rates.
- (f) Immediately after the details above are forwarded to the license owner by the service provider, the license owner shall perform a conformity examination between the said details and the details appearing in its information system. The registration process for service may be continued only after the license owner informs the service provider that the conformity examination was found to be entirely identical to the details examined.
- (g) If the subscriber is blocked from receiving the service or that all details are not entirely identical, as stated, the license owner shall notify the service provider that the subscriber is blocked from receiving the type of service requested or that his registration for services failed, as applicable, and shall notify the subscriber by way of a text message, free of charge, that he is blocked from receiving the type of service requested by him, or that his registration for service failed, as applicable, and that he may contact the license owner for the removal of the blockage from said type of service.

- (h) If the subscriber is not blocked for the receipt of service and all details are entirely identical, as stated, the license owner shall send the subscriber a text message, free of charge, which shall include only the following:
- (1) The name of the service, including the classification of the service as a "one-time" payment service or as a "continuous" payment service;
 - (2) Service rates;
 - (3) A random code of at least five (5) digits.
- (i) The subscriber shall type the code on the Supplier's Website in the intended place for it.
- (j) The service provider shall forward to the license owner the code which the subscriber type, as stated in subsection (i).
- (k) The license owner shall make a comparison between the code sent to the subscriber and the code typed by the subscriber on the Supplier's Website.
- (l) If the code the subscriber types is identical to the code sent to him, the license owner shall send the subscriber a text message, free of charge, notifying him that his registration for the service was approved, and if the service is on "continuous" payment, the information regarding the method by which the registration for the service may be canceled. Furthermore, the license owner shall notify the service provider that it approved the registration for the service.
- (m) If the code typed by the subscriber is not identical to the code sent to him, the license owner shall send a text message to the subscriber, free of charge, notifying him that his registration for the service failed due to lack of conformity, as stated. Furthermore, the license owner shall notify the service provider that the registration for service failed.
- (n) The service provided as a "one-time" payment shall be provided to the subscriber only once, and the charge for it shall be on a one-time basis. If the subscriber wishes to receive the service on a one-time service additional times, he shall be required to register for the service time and time again.

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Appendix H – Bank Guarantee and Letter of Undertaking

The License Owner shall provide the manager with an unconditional guarantee in favor of the State of Israel. The guarantee shall be in the amount of eighty million (80,000,000) NIS. This guarantee shall be in place of any previous guarantee which the License Owner provided to the manager under the provisions of its license. If the License Owner met the provisions of Appendix E, the guarantee amount shall be reduced to forty million (40,000,000) NIS.

Version of Bank Guarantee / autonomic insurance and version of undertaking to extend the guarantee

To:
The State of Israel – Ministry of Communications
23 Jaffa Street, Jerusalem

RE: **Bank Guarantee / Autonomic Insurance No. -----**

1. According to the request of [*name of License Owner*] (hereinafter – the "**License Owner**"), we hereby guarantee towards you the payment of any amount, at your request, up to a total amount of [*the guarantee amount*] at the actual payment date (hereinafter – guarantee amount), in connection with the general license for the provision of mobile telephony communications, which was granted to the License Owner.
2. We undertake to pay you at your initial written request, any amount stated in the demand up to the guarantee amount within ten days from the date of receipt of your request.

(Optional paragraph: a payment demand must be delivered to the bank branch stated in this Bank Letter, during working hours in which the branch is opened. A demand by facsimile, telex, electronic mail or telegram shall not be considered as a sufficient demand for the purpose of this guarantee).

3. Our undertaking under this Guarantee is unconditional, and you do not have to specify, base or prove your demand or to initially request payment from the License Owner.
4. This guarantee shall be valid until [*seven years from the date of receipt of the license*]; the License Owner shall bear any expense entailed in the realization or extension of this guarantee.

Sincerely,

_____ Bank

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To
The State of Israel – Ministry of Communications
23 Jaffa Street, Jerusalem

RE: Undertaking to Extend the Bank Guarantee / Autonomic Insurance No. -----

Further to the bank guarantee / autonomic insurance no. _____, which was provided to you in accordance with the provisions of the general license for the provision of mobile telephony communications (hereinafter: the "**Guarantee**"), we [*name of License Owner*] (hereinafter – the "**License Owner**") undertake that no later than sixty days before the end of the guarantee term, it shall be extended for a period of another five years, and each time for an additional period in a manner in which the guarantee shall be valid until [*two years from the end of the validity of the license granted to us*]; however, if at said period we did not pay off, to your satisfaction, all of our charges, the guarantee shall be extended, each time for a period of an additional year, according to your written request.

Sincerely,

[the License Owner]

24 of Av, 5775
August 9, 2015

/Signature
Shlomo Filber
The General Manager

Appendix J –Accessibility to International Telecommunications Services⁶⁰

1. Definitions

1.1 In this document, the following words and terms will have the definitions noted at their sides, unless otherwise deriving from the language or context:

Bezeq International -	The Bezeq International Company Ltd. ;
Barak -	Barak I.T.C. (1995) Company for International Telecommunications Services;
Chance caller -	A Licensee subscriber, calling abroad using an international operator, using a three digit dialing code, as set out in section 2;
Subscriber number (or telephone number) -	A group of numbers in a certain order, including area code, the dialing of which should create a telecommunication's connection between the reading subscriber's end user equipment and the reader subscriber's end user equipment; a reader subscriber number may be a subscriber number of a number to a call answering center of a subscriber or a number to a call answering center of a licensee ²
International operator -	Anyone providing international telecommunications services to the public in Israel under a general license from the Director;
Chosen operator -	An international operator chosen by appointment, under the provisions of section 4 ³
Access code -	A group of numbers in a certain order, the dialing of which allows access to a certain telecommunications service of a certain operator; dialing additional codes, as needed, and the subscriber number, should create a telecommunication connection to the subscriber's end user equipment ⁴ ; if the access code is a manned call center, the service is given via the operator.
Short dialing code -	"00" " and "188" access code, designated to receive international telecommunications services, by direct dialing, or via an operator, as explained in section 2;
Golden Lines -	The Golden Lines International Communications Services Company;
Subscriber ascription	The technically defining action an internal operator performs in his switch so that his subscriber's calls, performed through a shortened dialing code, are channeled into the chosen operator's switch;
Outgoing ITMS calls -	Transferring a verbal message or facsimile message via an international telecommunications service, initiated by a Licensee subscriber;
Ingoing ITMS calls -	Transferring a verbal message or facsimile message via an international telecommunications service, initiated by an international caller;
International Telecommunications Services -	Telecommunications services given to the public in Israel, under license from the Director, via an international operator's international telecommunication services;
ITMS service	International telecommunications message service, that is, two-directional simultaneous transfer of talk and simultaneous transfer of facsimile messages, in an international telecommunications system.

² The phone number is determined by the licensee, according to rules and directives prescribed by the Director.

³ A chosen operator may be Bezeq International, Barak or Golden Lines.

⁴ for example: dialing an access code for international services, and after a country code, area code in that country and telephone number of the designated subscriber abroad

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1.2 Words and expressions in this document not defined above shall have the meaning as defined in the Law, regulations enacted by virtue thereof, in the Interpretation Law, 5741 – 1981, or as set out in the appropriate places in the Licensee's general license and in the International Operators' licenses, unless otherwise deriving from the language or context.

2. Allocation of Access Code

2.1 A Licensee will channel subscriber dialing, to the international operators' switches, for access to international telecommunications' services, using the following codes:

- (A) **double-digit access code** – the '00' access code, which will serve as short access code for international telecommunications services provided by a chosen operator; the Licensee will channel a subscriber dialing the prefix '00' to the chosen operator;
- (B) **triple-digit access code** – an access code of '01X' type, which will serve as an access code for international telecommunications services provided to a chance user; the Licensee will channel any subscriber dialing the prefix '01X' code to the international operator according to the X digit; the X digit is the international operator's code, according to the following:
 - 1. '2' – code for Golden Lines' services;
 - 2. '3' – code for Barak services;
 - 3. '4' – code for Bezeq International services;
- (C) **'188' access code** – that will serve as a number for operator services ; any subscriber dialing '188' will be channeled by the Licensee to the chosen operator's operator services;
- (D) **four-digit access code** – numbers of the '18XY' type, that will serve as an access code for various international telecommunications services of any and all international operators; any subscriber dialing '18XY' will be channeled by the Licensee to the international operator according to the X digit; the X digit is the code of the international operator under section 2.1(B); the Y digit is any number from 1 to 9 and the 0 digit; the use of the Y digit will be determined by the Director, under advisement with the international operators, in order to ensure uniformity and fair competition; each international operator will be allocated ten (10) such four digit numbers/ these numbers will be accessible for both the chosen operator's subscribers and for chance callers.

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2.2 If the Licensee allows its subscriber the use of another short dial code (such as +), instead of the "00" dial code (hereinafter: a special code), all the provisions and rules applicable to the short "00" dial code will apply to the special code as well.

2.3 Dial by pre-paid program for unidentified subscribers who are not blocked for outgoing ITMS calls will be possible only using three-digit access codes of the 01X type, and four-digit access codes of the 18XY type; upon dialing a short access code or a special access code, a voice announcement will be heard referring the customer to dial via said access codes available to him.

2A. ^{A23} **Subscriber Access to Outgoing ITMS Calls :**

2A.1 The Licensee will allow subscribers to act as follows, with regard to outgoing ITMS calls:

- (A) as an ascribed subscriber.
- (B) As blocked
- (C) As a chance caller only.

3. Blocking Outgoing International Calls and Removal of the Blocking

3.1 The Licensee will block outgoing ITMS calls, and may also block collect incoming ITMS calls for any subscriber requesting to block access to international services or subscribers for whom the international service for outgoing ITMS calls has been stopped or cut off, in accordance with the conditions of the License; the licensee may not block incoming ITMS calls except collect calls.

3.2 If a block for outgoing ITMS calls has been implemented at a subscriber's request, the Licensee will remove the block as follows: ^{A23}

- (A) If the subscriber has asked to join, he will indicate his choice international operator who shall serve as his "chosen operator", by his signature on the appropriate form; notice given by means of facsimile will be deemed notice in writing given to by the subscriber in this matter.
- (B) If the subscriber has asked to be a chance caller, he will notify the Licensee of such; if the notice is verbal, the Licensee will verify the requesting party's identity.

3.3 The Licensee will perform the block for ITMS or removal thereof, performed in accordance with the subscriber's request, according to the following:

- (A) 70% - Within one working day of receipt of notice; requests received after 1500 hours will be deemed having been received on the following work day;
- (B) 20% - within two working days of receipt of notice;
- (C) the rest – within 5 working days.

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- 3.4 The Licensee will ensure that a subscriber who has blocked his outgoing ITMS calls cannot make outgoing calls using '00' dialing code, '01X' dialing code, '188' or '18XY' dialing codes, or using any other code that may come in place thereof ^{A23}.
- 3.5 The Licensee may collect reasonable payment for performance of a block for outgoing ITMS calls or for removal of the block.
- 3.6 Notwithstanding that stated in section 3., the Licensee will allow all its subscribers to block outgoing ITMS calls before initiation of services for such subscriber, free of charge.
- 3.7 The Licensee will verify that all subscribers whose access to outgoing ITMS calls has been blocked receive appropriate voice message when dialing access codes or telephone numbers for international services.
- 3.8 If a subscriber who has chosen a chosen operator asks to block outgoing ITMS calls, the Licensee shall notify such to the chosen operator, within seven (7) working days of the date of performance of the block.
- 4. Choosing a Chosen Operator**
- 4.1** A Licensee's subscriber may notify the international operator in writing, on a signed form approved by the Director, regarding his choice of a chosen operator through whom such wishes to receive international telecommunications services using '00' or '188' access codes; the form will including the particulars of the subscriber – first name, last name or name of corporation, ID number of ID number of the corporation, address and telephone numbers the subscriber asks to define the international operator as the chosen operator for, and the date and time when instruction regarding the appointment was given. The form will explain that any phone number may have one chosen operator only, and such will fulfill the requirements prescribed in this matter in the international operator's license⁷ (hereinafter: the ascription form).
- 4.2** Subscribers may change the chosen operator at any time by written notice on the ascription form; for initial ascription made at the subscriber's request, the subscriber will not be asked to pay anything, however the subscriber may be charged a reasonable fee for any change in the ascription.
- 4.3** The chosen operator will send the Licensee notice regarding the subscriber's having chosen him as the chosen operator (hereinafter: ascription notice); ascription notice will include the subscriber's particulars - first name and last name, address and telephone numbers the subscriber asked to define the international operator as the chosen operator for, and the date and time of the ascription form on which the subscriber signed; the chosen operator will give ascription notice to the Licensee in accordance with the ascription forms signed by him; ascription notice will be given via magnetic media files, or in any other manner agreed upon between the Licensee and the international operators. If two or more ascription notices are given to the Licensee, relating to the same telephone number, the sc will act in accordance with the ascription notice with the later date and hour.

⁷ Attention is called to section 52.3 of the Bezeq license, and section 56.4 to the Golden Lines and Barak license.

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- 4.4 If a person has asked to become a new Licensee subscriber, he must make note, in the request to the international operator of his choice to engage with as a chosen operator; the Licensee will allow any new subscriber to choose a chosen operator for himself or to block the outgoing ITMS calls, or will allow the subscriber to receive ITMS services as a chance caller only; ascription services to a chosen operator or connection as a chance caller, and blocking outgoing ITMS calls will be given to new subscribers, at the time of initial registration, free of charge ^{A23}.
- 4.5 In order to choose a chosen operator, and without derogating from the aforesaid, the Licensee will act as follows:
- (A) the Licensee will allow all subscribers having a subscriber line number to choose one chosen operator will be for certain subscriber lines, and another for other subscriber lines;
 - (B) Void^{A2A23}.
 - (C) the Licensee will perform ascription of a subscriber within one working day of receipt of ascription notice form the chosen operator ^{A2A23}.
 - (D) The Licensee will report to the international operator regarding completion of said subscriber ascription as stated in sub-clause (C) above, including change of ascription at the time and under such plan as agreed upon between the Licensee and the international operator; the report will include particulars of the subscriber – first name, last name or name of corporation, address and telephone numbers the subscriber asked to ascribe to the international operator.
 - (E) ^{A20} The Licensee will send a daily modification file of subscriber ascription to all international operators (hereinafter: the modification file), containing the particulars of the subscribers who ascribed to the international operator or who unsubscribed on that day. The modification file will be handed over at the time and under such procedure as shall be agreed upon between the Licensee and the international operator. The file will include the particulars of the subscriber, including at least the first name, last name or name of corporation, ID number of ID number of the corporation, address and telephone numbers the subscriber asks to define the international operator as the chosen operator for. ^{effect}
 - (F) The Licensee may request that the Director allow in certain cases, all the prescription of rules and limitations on the matter of subscriber ascription, the Licensee will set out the technical or operational reasons on which such request is based; if the Director consents to the Licensee's said request, at his professional discretion, the Director will prescribe the time frame for the applicability of said rules and limitation;

^{effect} This amendment will go into effect by no later than Thursday, the 29th of Nissan, 5763 (May 1, 2003)

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(G) The Licensee will submit a written quarterly report to the Director, by the 15th of the month following the end of the quarter; the information in the report will be correct as of the last day of the calendar quarter preceding the date of the report, and will include the following:

- (1) The number of subscribers blocked from international telecommunications services;
- (2) The number of subscriber engaged for international services using short dialing codes or using special codes, for each of the international operators;
- (3) ^{A23} The number of subscribers engaged for international services as chance dialers only.

(H) If there should be any disputes between the international operator or between the Licensee and the international operator on the matter of a subscribers choosing a chosen operator, the matter will resolved by the Director, or resolved by an independent arbitrator appointed by the Director, at his exclusive discretion.

4.6 The Licensee will channel any subscriber dialing using the '00' prefix or any other special prefix for access to international telecommunications services, or channeling a call to a Licensee's subscriber located abroad using an international operator (follow-me subscriber service) to the chosen operator.

5. Void ^{A23}

6. Block for short dialing code

6.1 Subject to the provisions of this appendix, the Licensee will perform a block for short dialing code for any subscriber so requesting^{A23}.

6.2 The Licensee will perform the block for short dialing code as follows: the Licensee will channel the subscriber's calls using the double-digit '00' prefix and the '188' prefix to an announcer playing a recorded announcement stating the following in Hebrew, English, Arabic and Russian: "This service is blocked, for further details please dial ____ (a telephone number of the announcer under the provisions of section 6.7)^{A23}.

6.3 Void ^{A23}

6.4 Void ^{A23}

6.5 Void ^{A23}

6.6 Void ^{A23}

6.7 The Licensee will operate the voice announcement 24 hours a day, including Saturdays and holidays, using such method and wording allowing a subscriber to receive an explanation regarding the ascription and overseas dialing, in Hebrew, English, Arabic and Russian; the explanation will include the following matters:

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- (A) Performance of ascription – the ascription process and where to call in order to request the ascription form;
- (B) How one may make an international call when the subscription is blocked for short dialing codes;
- (C) The option of blocking overseas dialing and the option of removing such block;
- (D) Where one may call in order to find out about additional matters – telephone numbers of international operators.

7. Interconnection

- 7.1 The Licensee will connect its system to all international telecommunications system, directly or indirectly, according to the terms of its license, in a manner allowing provision of international telecommunications services to all subscribers through the international telecommunications services of all international operators, including outgoing and incoming ITMS calls, direct dialing, dialing through an operator ('188' service, as stated in section 2.2(A)), "Direct Israel" services, collect service (from abroad to Israel, from Israel abroad), international 1-800 service (incoming and outgoing), calling card services, from any destination abroad and to any destination abroad.
- 7.2 The technical, operational and commercial arrangements between the Licensee and any international operator will allow the provision of the following to all subscribers:
 - (A) Quality service, including service quality control and means for investigating and dealing with subscriber's complaints regarding quality of service;
 - (B) Accurate and precise billing of subscriber, including control over the billing and means for investigating and dealing with subscriber's complaints regarding incorrect billing and tools and means of identification and prevention of fraud and deception;
 - (C) Consumer response to subscriber's queries and questions, including tools and means of providing an itemized bill for subscribers, and for investigating subscriber's queries in all matters related to receipt of international services.
- 7.3 In order to implement the provisions of this appendix, the Licensee will act, inter alia, as follows:
 - (A) Allow any subscriber who has not blocked outgoing international ITMS calls to make international calls at any time via his chosen international operator or as a chance caller, using dialing methods set out in section 2;
 - (B) Allow all subscribers to change their chosen operators; this service will be given in return for a reasonable charge,

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- (C) Take reasonable measures to prevent subscriber ascription to a chosen operator without his knowledge or against the subscriber's wishes ("slamming"); these measures will include identification of the subscriber and verification of the subscriber's right to receive service;
 - (D) Give all subscribers, free of charge, service allowing them to identify the name of their chosen operators;
 - (E) The Licensee will offer non-discriminatory conditions to all international operators, including in all matters regarding the commercial conditions, billing and collections arrangements, availability of connection installations and quality of service; without derogating from the generality of the aforesaid, the Licensee will provide service for all international operators under equal conditions including in the matter of interconnection, provision of infrastructure installations and connection services to the network, performance of changes in switching, in installations, protocols and network interface;
 - (F) The conditions for interconnection between the Licensee's system and the international operator's international telecommunications system will be reasonable and non-discriminatory; if the parties have not reached any agreement, the Minister will determine matters between them;
 - (G) A copy of any agreement between the Licensee and international operator in the matter of interconnection will be delivered to the Director;
 - (H) Any international operator requesting the particulars of a subscriber refusing to make payments to the Licensee designated for the international operator for services used via the international operator's international telecommunications system will be given over, whether such subscriber was an ascription subscriber or a chance caller; these particulars will include the first name, last name or name of corporation, ID number of ID number of the corporation, address and telephone number.
 - (I) ^{A22} Allow international operators to collect payment directly for services from subscribers ascribed to such international operator, and who have chosen to receive billing and collections services directly; the Licensee will have any vital information required by the international operator at his disposal allowing the international operator to provide billing and collection services for such aforesaid ascribed subscribers;
 - (J) ^{A22} Provide services under equal and non-discriminatory conditions and for such charge not discriminating against an ascribed subscriber who has chosen to receive billing and collection services from the international operator.
- 7.4 The international operators will bear the costs of implementation of the interconnection including the process of survey and blocking short dialing codes, and, if so required, for a subscriber's initial ascription to a chosen operator; the rate of payments, as stated, will be determined under negotiation between the Licensee and the international operator; the Licensee's shared expenses that cannot be ascribed to a particular international operator will be divided equally between all international operators; if the parties have not come to an arrangement, the Minister will prescribe instructions in these matters, after giving the parties a fair opportunity to argue their claims before him.

First Schedule – Void ^{A23}

Second Schedule – Void ^{A23}

Appendix K – Discontinuation of Service to Cellular End-User Equipment of the IS-54 type⁷

Definitions 1. In this appendix -

“Old technology phone” – A cellular phone operating on IS-54 format;

“New technology phone” - A cellular phone operating on IS-136 format;

“Upgradeable telephone” - An old technology phone that may be upgraded to a new technology phone;

“Date of cessation of service” - The date on which the Licensee ceases to provide cellular services to an old technology phone owner.

“Eligible customer” - The Licensee’s subscriber or customer who has lawfully purchased an old technology telephone and has not exchanged or upgraded it to a new technology phone;

“Telephone Number” - The number of the cellular telephone given to a subscriber or customer who lawfully purchased an old technology phone and connected to the Licensee’s network;

“Upgrade” - Exchanging the software version of the telephone upgrades the telephone, wherein it becomes a new technology phone.

Discontinuation of service 2. Notwithstanding the aforesaid in section C of chapter E of the General License, the Licensee may discontinue provision of cellular services to eligible customers, provided all the following provisions apply:

Publication 3. (A) The Licensee will publish an appropriate notice under these provisions in three of the largest newspapers in Israel, one of which is published in Arabic, on the closest Friday to the date 30 days before the date of cessation of service.
(B) The Licensee will publish an appropriate notice under these provisions in three of the largest newspapers in Israel, one of which is published in Arabic, on the closest Friday to the date 30 days earlier than the end of six months from the date of cessation of service.

Exchange of telephone 4. The Licensee will exchange an old technology telephone including all accessories thereto, including a hands-off device, for a new technology telephone, including all accessories thereto, for any eligible customer, on the basis of accessory for accessory, including the installation thereof, provided the new technology telephone is of no lesser features than the new technology telephone’s features, free of any direct or indirect charge to the customer.

⁷ Amendment 7

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| Upgrade | 5. The Licensee will upgrade an eligible customer's upgradeable telephone, free of any direct or indirect charge to the customer. |
| Telephone number | 6. The Licensee will keep the telephone number allocated to any eligible customer before the date of cessation of service for a period of six months from the date of cessation of service; after this period the Licensee may exchange the telephone number of an eligible customer who did not exchange the old technology telephone to a new technology telephone or did not upgrade an upgradeable phone during that period. |
| Notice of Application | 7. The Licensee shall inform the Director in advance and in writing of the day of Discontinuation of Service and of the days of Publication as detailed in sub-sections 3(A) and (B) above and shall furnish the Director with copies of the notices as published. |
| Period | 8. The Licensee will fulfill the provisions of sections 4 and 5 above starting on the date of publication prescribed in sub-section 3(A) above for a period of 7 years from the date of cessation of service. |
| Conditions of service | 9. The provisions of sections 4, 5 and 6 will be deemed a condition of service, as defined in section 37B.(A)(1) of the Telecommunications Law. |

^{A63}Appendix K-1 – Discontinuation of Service for Cellular End Equipment in a Cellular System Using the IS-136 (TDMA) technology.

1. Definitions

In this appendix –

"Day of Service Discontinuation"	December 31, 2011 or an earlier date, if no initiated calls are made in the system operating by the IS-136 (TDMA) technology (hereinafter – the "old system") by entitled subscribers during at least 14 consecutive days.
"Entitled Subscriber"	A subscriber, excluding a dormant subscriber to which the service was discontinued, who prior to the day of service discontinuation held obsolete equipment and has still not replaced or upgraded it to new equipment.
"Phone Number"	The phone number given to an entitled subscriber holding obsolete equipment.
"New Equipment"	Cellular end equipment, including a battery and charger, reconditioned or new according to the Licensee's choice, operating at a minimum on a system using the GSM technology, of Nokia 6070 model or another model with features not inferior to those of the said model.
"Obsolete Equipment"	Cellular end equipment operating on the obsolete system and its accessories, including end equipment which is out of order or missing.

2. The Licensee shall discontinue the provision of cellular service to a subscriber holding obsolete equipment, starting from the service discontinuation day.

3. Publication of Service Discontinuation

- 3.1 The Licensee shall publish, in at least three major dailies in Israel one of which is published in Arabic, on the closest Friday to the date 30 days before the service discontinuation, an appropriate notice notifying the public of the discontinuation of activity of the system using the IS-136 (TDMA) technology and the services provided to its subscribers through that system, in accordance with the provisions of this appendix (hereinafter – the **"first notice"**). In addition, it shall send a written notice similar to the first notice to each entitled subscriber whose address is registered with the Licensee. The Licensee shall submit the contents of the first notice to the Director for approval prior to its publication.
- 3.2 The Licensee shall publish, in three major newspapers in Israel, one of which is published in Arabic, on the closest Friday to the date 30 days earlier than the end of six months from the date of service discontinuation, an additional notice, in accordance with the provisions of this appendix (hereinafter: the **"second notice"**). Notwithstanding the foregoing, the Licensee is entitled not to publish a second notice as stated, if no entitled subscriber exists on that date.
- 3.3 The Licensee shall send an entitled subscriber a voice message and an SMS concerning the discontinuation of the service, by one week before the day of service discontinuation.
- 3.4 The Licensee shall publish a notice similar to the first notice also on its website, starting from the date of publication of the first notice until 30 days after the publication of the second notice.

^{A63} Amendment no. 63

4. End Equipment Replacement Process

4.1 The Licensee shall do the following, without any direct or indirect consideration:

- a. It shall replace for each entitled subscriber the obsolete equipment with new equipment.
- b. For an entitled subscriber with a speaker, it shall replace the speaker with a reconditioned or new speaker compatible with the new equipment. In this regard, replacement – including installation of the speaker.
- c. It shall grant a warranty for the new equipment and for the speaker, as the case may be, for a period of no less than two years from the day of publication of the first notice.

(All that stated in section 4.1 above – "**upgrade**".)

4.2 The upgrade process shall be carried out at any of the Licensee's service and sales center, during two years from the day of publication of the first notice.

4.3 An entitled subscriber who is a "prepaid" subscriber with an unutilized payment balance, and who is not interested in upgrading the obsolete equipment held by him, shall receive from the Licensee the balance of the payment. Such a subscriber shall be entitled to a refund of the unutilized balance, after showing the obsolete equipment, from the day of service discontinuation until the end of the validity of such balance.

5. Phone Number

5.1 The Licensee shall keep the phone number of an entitled subscriber that was allocated to him before the day of service discontinuation, during one year from the day of service discontinuation, before it is returned to the pool of phone numbers of the Licensee, unless the entitled subscriber notifies the Licensee of his wish to keep the number that was allocated to him for an additional year.

6. Notice of Inception

6.1 Without derogating from that stated in section 3.1, the Licensee shall give the Director prior written notice regarding the day of service discontinuation and the publications days as stated, and shall furnish to the Director photocopies of all the notices, as stated in section 3.

**TRANSLATION FROM HEBREW
THE BINDING VERSION IS THE HEBREW VERSION**

Appendix O – Erotic Services^{A36 effect}

1. Definitions

1.1 In this appendix –

- Licensee -** One who has been given a general license by the Minister for provision of NDO or cellular services;
- Telephone bill -** A bill given to the subscriber by the Licensee for services provided;
- Writing -** Including via facsimile or electronic mail;
- Service number -** A number of digits allocated to an erotic services provider by the Licensee, given by dialing a telephone number, subject to the provisions of the numbering program and administrative provisions in this matter, the dialing of which, following a dialed prefix, allows the subscriber access to the service;
- Services provider -** One who provides erotic services via the network, and payment for the service is made through the telephone bill; in the matter of erotic services provided through dialing a telephone number, access to the services is achieved through a service number;
- Erotic promo** Broadcast or presentation of an audio or visual message with sexual content, including a recorded message, given via a telecommunications facility, directly or indirectly, and such message is intended to provide information on a service following or to encourage the use thereof, provided the broadcast of the message or presentation are made without additional charge beyond the charge for a telephone call collected via the telephone bill;
In this matter, “indirectly” – including by way of creating a connection from the subscriber’s end user equipment as a condition of providing the erotic promo.
- Area code** A national area code in such model as prescribed by the Ministry for erotic services;
- The network -** The Licensee’s public telecommunications network.

^{A36} Amendment no. 36

^{effect} This amendment will go into effect on the 1st of Nissan, 5766(March 30, 2006)

^{A76} Amendment No. 76

Erotic services - Audio broadcast or presentation of an audio or visual message with sexual content, including recorded messages, given via a telecommunications facility, directly or indirectly, including services for dating, chats, or sending messages between chance callers, designated or serving, even in part, for sexual purposes, which are any of the following:

- (1) A service provided through the dialing of a telephone number given by a service provider;
- (2) An access service to a closed data base of contents including multimedia files, held by the Licensee or by another provider of the service with the Licensee's consent (hereinafter: the "**cellular portal**").

In this matter, "indirectly" – including by way of creating a connection from the subscriber's end user equipment as a condition of providing the service or for charging for it;

Payment regulations - The Communications Law (Telecommunications and Broadcasts) (Payment for Telecommunications' Services), 5765 – 2005;

Special payment - A price fixed as stated in section 6, which the subscriber is required to pay for erotic services in addition to the regular payment;

Payment Per time - A special payment, the rate of which is determined by the amount of time the subscriber used the erotic service;

Regular payment - One of the following:

- (A) For a call within the network – a payment that does not exceed the fixed charge according to the rate agreement between the subscriber and the Licensee regarding a call to another subscriber in the same network;
- (B) For a call from one cellular network to another cellular network or to a NDONDO network – payment as set out in sub-section (A) plus a payment that does not exceed NIS 0.50 per minute (including VAT);
- (C) For a call from the Bezeq company network to a cellular network – a charge that does not exceed that prescribed by the letter D in table A in the First Schedule of the Payment Regulations, plus NIS 0.50 per minute (including VAT);
- (D) For a call from a NDONDO network, except the Bezeq company network, to a cellular network – a charge that does not exceed the fixed charge according to the rate agreement between NDO subscribers and NDO, with respect to another subscriber number within the same network, plus NIS 0.50 per minute.
- (E) For erotic services given via the cellular portal – a charge that does not exceed the fixed charge according to the rate agreement between the subscriber and the Licensee with regard to access service to the cellular portal.

2. Access through Dialing

2.1 Subject to the provisions of section 4, access to erotic services given through dial-up will be made available to subscribers via an area code and service number.

3. Allocation of Service Number

3.1 In the matter of erotic services provided by dial-up, the Licensee may allocate a service number to a service provider; in such case, the Licensee will allow the service provider to provide services to both the Licensee's subscribers as well as subscriber to other licensees.

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4 Blocking Access

- 4.1 A. ^{A38} A Licensee will block access to erotic services from all end-user equipments connected to the network; without derogating from the aforesaid, for the purpose of blocking access to erotic services given through the cellular portal, the Licensee may make use of a means of blocking, including content filtering programs, provided they efficiently block access to said service.
- B. ^{A38} Should the Ministry of Communications notify the Licensee that an erotic promo is being given through the Licensee's telephone line or network, without access through a service number, the Licensee will cut off said line, or block the line from receiving incoming calls;
- 4.2 A subscriber 18 years of age or more may request the Licensee remove a block imposed as described in section 4.1A^{A38} from his end user equipment.
- 4.3 A request for such removal of a block will be made in writing, or verbally, provided the Licensee has prescribed a procedure allowing accurate identification of the requesting subscriber.
- 4.4 If a subscriber has so requested a block removed, the Licensee will remove the block within a reasonable time, in a manner allowing the subscriber access to erotic services via the end user equipment in his possession.
- 4.5 If a block has been removed for erotic services as stated, and the subscriber requests that his end user equipment again be blocked for such services, the Licensee shall perform the block at the soonest possible opportunity, and by no later than 2 work days from the date of receipt of the subscriber's request.
- 4.6 The first removal of a block against erotic services, made at the subscriber's request as stated in sections 4.2 and 4.3 will be made free of charge; the Licensee may charge the subscriber a reasonable fee for any additional blocking access to erotic services or for additional removal of such block, made at the subscriber's request.
- 4.7 The license owner shall document the request of the subscriber for the removal of the blockage of erotic services. The documentation shall be available at the license owner for delivery or transfer, as applicable, to the manager, within five (5) business days from the date the subscriber submitted his request.

4 Early Registration

- 5.1 Notwithstanding that stated in section 4 above, the Licensee may establish a duty of early subscriber registration for receipt of a password, a submission of which will be a precondition for receipt of erotic services. The provisions of this section do not derogate from the provisions of sections 4.2 and 4.3 above.

5 Special Payment

- 6.1 If special payment is prescribed for erotic services, the rate shall be fixed by the Licensee or in agreement between the Licensee and the services provider.

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7 Charging the Subscriber

- 7.1** If special payment is prescribed for erotic services, the Licensee's phone bill will show the payment for the service separately from charges for the Licensee's other services, unless the subscriber has requested otherwise.
- 7.2** The Licensee shall provide the subscriber, upon demand and within ten (10) working days, details of the special payment for erotic services as follows:
- (A) The service number the service allocated;
 - (B) The date and time service was provided;
 - (C) Billing time units – when charging per time – the number of time units charged or the total amount of the special payment; in the case of a charge according to traffic volume (such as MB, KB), the number of volume units transferred;
 - (D) The sum charged for the service.

The Licensee may collect a reasonable fee for specification of the special payment.

8 Mandatory Tender

- 8.1** If a special payment has been fixed for erotic services provided through the network, the Licensee, either himself or via the services provider, will play a recorded message at the beginning of the call, containing the following details:
- A. The essence of the service;
 - B. Rate of special payment for the service, according to payment per time or per traffic volume, as the case may be;
 - C. The option to discontinue the service, without charge, before the signal is heard, as stated in section 8.4.
- 8.2** The recorded message will be played in the language in which the erotic service is provided, in comprehensible language, at a reasonable pace and without recording defects.
- 8.3** At the start of erotic services provided in a language not Hebrew, a message will be played announcing the language in which the service is provided, and after, the recorded message will be played, as stated in sections 8.1 and 8.2, in the language in which the service is provided.
- 8.4** Upon completion of the recorded message, as stated in section 8.1, the caller will have a 5 second interval, at the end of which a signal indicating the start of the erotic services; if the caller disconnected the call before the signal was heard, he will not be charged the special payment. Alternatively, the caller will be asked to press a certain key on his end user equipment in order to confirm that he desires to accept the service, and will be charged the special payment only from the moment he so acts.
- 8.5** If a special payment is fixed for erotic services provided by access to the cellular portal, the Licensee will notify subscribers regarding the price of the service in an obvious and clear manner, providing the subscriber the option to disconnect from the service without being charged the special payment.

9 Licensee –Services Provider Relations

- 9.1 The Licensee may allow a services provider to perform telecommunications operations via its installations in order to provide erotic services; the services provider will be exempt from the duty of obtaining a license for telecommunications services, under the provisions of section 3(5) of the Law.
- 9.2 The Licensee will include the provisions of this appendix, mutatis mutandis, in the agreement between the Licensee and the services provider, in such manner that the services provider will be obligated to fulfill said provisions.
- 9.3 The Licensee will provide the Director with any agreement between such and a services provider, upon demand.

10 Interconnection

- 10.1 The conditions for interconnection between the network and the Licensee's public telecommunications network, in all matters relating to provision of billing and collection services by one Licensee to another licensee, for purposes of provision of erotic services given via the network to another licensee's subscriber, will be formalized in an agreement between the Licensee and the other licensee; if the parties cannot reach an agreement, the Minister will decide on the matter.
- 10.2 The Licensee will, upon demand, provide the Director with a signed copy of all agreement it has with other licensees in the matter of said interconnection.

11 General

- 11.1 The Licensee will be responsible to handle all erotic services customer complaints, in all matters relating to subscriber access to the service, and problems of billing and collection in connection with the service, and will establish a mechanism for dealing with customer queries for such purpose; the services provider will be responsible to deal with subscriber complaints in regard to service content. If the Licensee himself provides the erotic services, the Licensee will be responsible to handle erotic services customer complaints regarding the service content as well.
- 11.2 The Licensee may not disconnect, stop or harm the basic telephone services of a subscriber who has used erotic services and refuses to pay for such, however, the Licensee may disconnect such subscriber from continued use of the erotic services.
- 11.3 The Licensee may not provide a subscriber's particulars to another services provider or to others, without the subscriber's written consent, and only after verification of the authenticity of such consent.
- 11.4 A Licensee shall, within three (3) working days, provide any subscriber so requesting the following particulars regarding the services provider, without charge:
- A. The name and address of the provider;
 - B. The telephone number at which such provider may be reached.
- 11.5 The provisions of this appendix will apply, mutatis mutandis, to provision of erotic services provided as a network service to the Licensee's subscribers only.
- 11.6 The Licensee may himself provide erotic services, and the provisions of this appendix will apply thereto, mutatis mutandis.

Annex P – Premium Service Provided at a Premium Tariff^{A76}

1. Definitions

1.1 In this Annex:

- “**License Holder**” - An entity which received a general license by virtue of the law;
- “**Host License Holder**” - A License Holder through whose Network the Service Provider provides its services;
- “**Source License Holder**” - A landline or mobile domestic License Holder, whose Subscriber wishes to purchase a Premium Service;
- “**Service Order**” - Any action initiated by the Subscriber for the purpose of receiving a Premium Service, including calling a Dialing Code, entering the Subscriber’s telephone number, entering a password and entering a code;
- “**Telephone Bill**” - A bill submitted by a License Holder to a Subscriber for services provided to him;
- “**Writing**” - Including via facsimile or e-mail;
- “**International Operator**” - An entity which received a general license to provide international telecommunications services;
- “**Subscriber**” - A subscriber of the Source License Holder;
- “**Service Number**” - A 10-digit telephone number determined according to the provisions of the numbering plan and the instructions of the Directorate in this regard, which includes a designated Dialing Code plus several digits, which the Host License Holder allocates to a Service Provider, and the dialing of which allows a Subscriber access to a Premium Service;
- “**Service Provider**” - An entity which provides Premium Service through a License Holder’s telecommunications Network, the payment for which is made through the Telephone Bill;
- “**Dialing Code**” - A national dialing code, in a format determined by the Ministry for the purpose of accessing a Premium Service;
- “**Network**” - A system of telecommunications facilities through which a License Holder provides its services;
- “**Premium Service**” - Voice message announcement or visual message presentation service, including a recorded message, which is provided through a telecommunications device, directly or indirectly, *inter alia* for one of the following purposes: the provision of information and content, entertainment, advice, dating service, chat, entering a competition, a lottery, a game or a vote or service provided over the internet, and with the exception of an erotic service; for this purpose, “indirectly” – including by way of making contact from the Subscriber’s end equipment or entering the Subscriber’s telephone number, including on the internet, as a condition to provision of or charging for the service;

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- “Premium Tariff”** - The tariff for payment for a Premium Service is in accordance with the requirement of the Host License Holder; this tariff shall include a tariff for completing the call on the Host License Holder’s public telecommunications Network, which is determined pursuant to the Communications Regulations (Telecommunications and Broadcasting) (Payments for Interconnect), 5760-2000, and with respect to a service that is provided by an International Operator as a Host License Holder, the tariff shall include the payment to be retained by the International Operator;
- “Regular Tariff”** - The tariff collected from the Subscriber by the Source License Holder, in accordance with the tariff plan set forth in the engagement agreement between it and the Subscriber²⁶.

1.2 Words and expressions in this annex that have not been defined in this section will bear the same meaning as in the law, in the regulations promulgated thereunder, in the Interpretation Law, 5741-1981, in Section 1 of the license or as specified elsewhere in this annex, unless another meaning is implied by the context.

2. **Access to Service and the Duty of Universality**

- 2.1 A Source License Holder will allow every Subscriber access to any Premium Service provided on all of the Networks of the license holders.
- 2.2 A Host License Holder will allow all callers of all license holders access to the Premium Services provided through its Network.
- 2.3 A Host License Holder and a Source License Holder will allow provision of Premium Services only through the Dialing Code and Service Number.
- 2.4 Referral to the Dialing Code will be made only in order to receive a Premium Service; referral to such Dialing Codes for other purposes, including charging and collection arrangements, customer service or administration, is absolutely prohibited.
- 2.5 The license holder will block access to a telephone number, including an international number, without the Dialing Codes for a Premium Service, insofar as it is informed by the Ministry or otherwise learns that a Premium Service is provided through this telephone number.

²⁶ In the event that the Subscriber has a limited monthly minutes package, the License Holder shall deduct the payment according to the duration of the call from the monthly minute quota; in the event that the Subscriber has an unlimited plan, he will not be charged any additional payment for dialing a Service Number; in the event that the Subscriber has a tariff plan other than in the framework of a package, his Regular Tariff will be identical to the tariff for an inter-network calling minute.

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3. **Duty of a recorded announcement and notification to the Subscriber**

3.1 Immediately after consummation of the engagement, and before providing a Premium Service, the Host License Holder will play a recorded message to the caller, in the language in which the service is provided, using clear and universally understandable words, and without interference on the recording. The recorded message will include the following details, according to the following order:

- (a) The nature of the service;
- (b) The Premium Tariff, in addition to the Subscriber's Regular Tariff;
- (c) The maximum tariff that may be collected for the service;
- (d) The maximum duration determined for the purpose of receipt of a Premium Service, if determined;
- (e) The possibility available to the caller to disconnect the call before commencement of provision of the service, without being charged, until the end of the sounding of the signal as specified in Section 3.2.

3.2 Upon completion of the sounding of the recorded announcement as stated in Section 3.1, and before commencement of provision of the service, the Host License Holder will sound a special signal to the caller, following which he shall be afforded at least 5 seconds to disconnect the call, without being charged the Premium Tariff. The license holder may afford the Subscriber the possibility of confirming receipt of the service by pressing a certain key on the end equipment in his possession to start the provision of the services before expiration of the said time.

3.3 If access to a Premium Service is blocked as stated in Section 7.1, the Source License Holder shall play a recorded message to the Subscriber whereby such service cannot be received, due to blocking of the access to the Dialing Code. The license holder may specify, in the recorded message, the ways of removing the blocking.

4. **Purchase of a Service**

4.1 Upon completion of the process stated in Section 3.2, the caller will be afforded the possibility of purchasing the Premium Service.

4.2 The service purchase will be made for each service separately, and according to the Dialing Code, and the purchase of a certain service shall not be deemed as the purchase of an additional service, whether the same service or another service.

5. **Price of the Service**

5.1 For all of the Dialing Codes specified below, the service tariff for the Subscriber will be the Premium Tariff for the service plus the Regular Tariff.

5.2 For a service provided with the Dialing Code 1-900, a maximum sum of NIS 0.5 per calling minute may be charged, and no more than NIS 30 for the entire call.

5.3 For a service provided with the Dialing Code 1-901, a maximum sum of NIS 50 may be charged, regardless of whether the Premium Tariff for the service was collected on a one-time basis or the tariff was determined according to the duration of the service, or a combination of the two.

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- 5.4 For a service provided with the Dialing Code 1-902, a maximum sum of NIS 100 may be charged, regardless of whether the Premium Tariff for the service was determined on a one-time basis or the tariff was determined according to the duration of the service, or a combination of the two.
- 5.5 Subject to the provisions of Sections 5.2-5.4, the binding Premium Tariff is the tariff provided to the Subscriber in the recorded announcement, prior to provision of the service, in accordance with Section 3.1.
- 5.6 The prices stated in this section include V.A.T.
6. **Collection and charging arrangements**
- 6.1 A Source License Holder will not collect from a Subscriber payment for a Premium Service, which was provided contrary to the provisions of this annex.
- 6.2 The Source License Holder will collect from the Subscriber payment for the Premium Service according to the charge records that the Host License Holder forwarded thereto, in addition to the Regular Tariff.
- 6.3 The Host License Holder will forward to the Source License Holder, at least once a day, charge records in respect of a Premium Service (the "Premium Records File") which was provided to the Subscriber, as delivered to the Subscriber in an announcement according to Section 3.1.
- 6.4 The Source License Holder will remit to the Host License Holder payments that it collected from its Subscribers in respect of Premium Services, according to the Premium Tariff, and will not be required to do so in respect of payments, as aforesaid, that it was unsuccessful in collecting from its Subscribers.
- 6.5 If a Subscriber disconnects the call before provision of the service has begun, the Source License Holder may collect from him a Regular Tariff, and will not remit to the Host License Holder an interconnect tariff, as set forth in the Communications Regulations (Telecommunications and Broadcasting) (Payments for Interconnect), 5760-2000 (the "**Interconnect Regulations**").
7. **Discontinuation of a Premium Service**
- 7.1 A Host License Holder may disconnect the caller from a Premium Service upon the payment for the call reaching the maximum payment as stated in Section 5.
- 7.2 A Source License Holder shall block the Premium Service for prepaid Subscribers upon exhaustion of the balance available to the Subscriber, or at the very latest, upon receipt of the "Premium Records File".
- 7.3 The provisions of Section 7.2 shall apply also to a credit-restricted postpaid Subscriber who has reached the credit limit agreed with him.
8. **Blocking Access to Service**
- 8.1 The license holder will allow every Subscriber, existing or new, to choose whether the access from his telephone line to Premium Services with Dialing Codes 1-900 and 1-901 will be open or blocked. The Subscriber's decision will be made by checking the "blocked" or "open" box on the access to services form (the "**Form**").
- 8.2 The license holder will prepare the access to services form or amend the access to services form defined in its license (the "**Access to Services Form**") so as to include the provisions of the access to premium services form in Section 12.

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- 8.3 The license holder will post the Access to Services Form on its website.
- 8.4 A new Subscriber's choice will be made by checking a box on the form which constitutes part of the "engagement agreement", when made in a transaction in the presence of the Subscriber and a representative of the license holder, in the framework of the "engagement terms and conditions document", when the engagement is made in a remote sale transaction via a telephone call, or as marked by the Subscriber on an online form, when the engagement is made via the internet.
- 8.5 The license holder will notify an existing Subscriber, in the Telephone Bill, of the option of downloading the form from its website, and marking his choice regarding access to Premium Services with Dialing Codes 1-900 and 1-901. If an existing Subscriber filled out a form in the past and is now only filling out his choice regarding access to Premium Services, his previous choices regarding access to services shall remain in place, unless the Subscriber explicitly requests to modify them.
- 8.6 If an existing Subscriber does not explicitly mark, within two months from this annex taking effect, his choice regarding access to Premium Services which are provided with Dialing Codes 1-900 and 1-901, the default option will be as follows:
- a. With respect to code 1-900 – open;
 - b. With respect to code 1-901 – blocked.
- 8.7 The blocking of access to Premium Services with Dialing Code 1-901 according to the default option as stated in Section 8.4, will be performed by the license holder within seven (7) working days from two months after this annex takes effect. A Subscriber's first-time blocking of access to codes 1-900 and 1-901, whether according to the Subscriber's choice or as a default option, will be performed free of charge.
- 8.8 The license holder will block the access of all of its Subscribers to the services provided with the Dialing Code 1-902 as a default option, free of charge, within one working day, from the date of this annex taking effect. A Subscriber's request to remove the blocking will be made in writing, or orally, provided that the license holder performs a reliable identification of the Subscriber submitting the request, according to the procedure determined thereby.
- 8.9 If a Subscriber requests removal of a blocking, the license holder shall remove the blocking within a reasonable time.
- 8.10 The license holder shall document the Subscriber's request to remove the blocking of Premium Services. The documentation will be available at the license holder for delivery or transfer, as the case may be, to the Director within five (5) working days from the date on which the Subscriber submitted his request.
9. **Provision of the service in Israel through an International Operator**
- 9.1 An International Operator may be a Host License Holder, and allow provision of a Premium Service through its Network, without being required to route the call overseas.
10. **Miscellaneous provisions**
- 10.1 A Host License Holder may permit a Service Provider to perform telecommunications actions through the facilities of the License Holder for the purpose of provision of the service; the Service Provider is exempt from the duty to obtain a general permit or license for the purpose of performance of telecommunications actions, pursuant to the provisions of Section 3(5) of the law.

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- 10.2 If a Subscriber does not pay a Telephone Bill which includes a charge in respect of Premium Services, the License Holder will forward to the Host License Holder the following details of the Subscriber: his full name, I.D. number and contact details.
- 10.3 In a Telephone Bill which includes charges in respect of Premium Services, the License Holder will specify in respect of each Service Provider, charges in respect of whose services are included in the bill, the following details:
- a. Name and address of the Host License Holder;
 - b. Company number or licensed dealer number of the Host License Holder;
 - c. Details for contacting the Host License Holder, including a telephone number.
- 10.4 A Host License Holder may not use means of payment details, provided thereto by the caller for the purpose of payment for other services, in order to collect a premium payment.
11. **Temporary provision**
- 11.1 (a) A Host License Holder will play an announcement to the caller whereby the Premium Service is provided only through use of the Dialing Codes 1-900, 1-901 and 1-902 in the following cases:
- (1) By calling Premium Services, access to which was enabled until the provisions of this annex took effect, by dialing an international number;
 - (2) By calling Premium Services, access to which was enabled until the provisions of this annex took effect, by dialing a network access code, as defined in the numbering plan in Israel.
- (b) The announcement will be made in the language in which the Premium Service is given.
 - (c) The Host License Holder will play the announcement for six months from the date on which the provisions of this annex take effect.
 - (d) The source operator may charge the Subscriber the Regular Tariff in respect of the announcement.

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12. **Access to Premium Services form:**

<u>Form of Access via the Telephone Device to Services Charged in the Telephone Bill</u>			
			Name of License Holder Ways to send the form: Address E-mail address Facsimile no. Date: _____
<p>I, whose details are recorded below, request access to the services specified below, for the telephone number stated on this form, as follows:</p>			
<u>Details of the Subscriber</u>			
Name of the Subscriber / name of the company: _____ I.D./P.C. _____ Address: _____ Telephone number: _____			
Check the box according to your choice and sign. Please note that partial checking and signing mean blocking the possibility of receiving the service.			
Type of service	<u>Blocked</u>	<u>Open</u>	<u>Subscriber's signature</u>
Access to Premium Services, which include playing of audio content or presentation of visual content, such as: information, entertainment, advice, dating service, entering competitions, etc., which are provided by dialing 1-900 and 1-901 numbers.	a. 1-900 numbers at a tariff of up to 50 Agorot per minute and no more than NIS 30 for an entire call.	<input type="checkbox"/>	<input type="checkbox"/>
	b. 1-901 numbers at a tariff that does not exceed NIS 50 for an entire call.	<input type="checkbox"/>	<input type="checkbox"/>
In an engagement in the presence of a representative of the License Holder – I, the undersigned subscriber, declare that this form was marked and signed by me. Name of representative of the License Holder: _____ Signature of representative of the License Holder: _____ The Subscriber's signature: _____			

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Subsidiaries of the Registrant

As of December 31, 2017	Country	Percentage of voting <u>share capital held</u>	<u>Principal activity</u>
Cellcom Fixed Line Communications Limited Partnership	Israel	100% (directly and indirectly - through Cellcom Israel Ltd. wholly owned subsidiary)	Communications

In 2017, Cellcom Israel Ltd. effected a reorganization of its subsidiaries. Following such reorganization, Cellcom Fixed Line Communications Limited Partnership is the only significant subsidiary of Cellcom Israel Ltd.

I, Nir Sztern, Chief Executive Officer of the Company, certify that:

1. I have reviewed this annual report on Form 20-F of Cellcom Israel Ltd;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
 4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
-

- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- 5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 26, 2018

/s/ Nir Sztern
Nir Sztern
Chief Executive Officer

I, Shlomi Fruhling, Chief Financial Officer of the Company, certify that:

1. I have reviewed this annual report on Form 20-F of Cellcom Israel Ltd;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
 4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
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- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- 5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 26, 2018

/s/ Shlomi Fruhling
Shlomi Fruhling
Chief Financial Officer

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Cellcom Israel Ltd. for the year ended December 31, 2017 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Nir Sztern, the Chief Executive Officer and Shlomi Fruhling, the Chief Financial Officer of Cellcom Israel Ltd., each certifies that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cellcom Israel Ltd.

Date: March 26, 2018

/s/ Nir Sztern

Name: Nir Sztern
Chief Executive Officer

/s/ Shlomi Fruhling

Name: Shlomi Fruhling
Chief Financial Officer



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Consent of Independent Registered Public Accounting Firm

The Board of Directors Cellcom Israel Ltd:

We consent to the incorporation by reference in the registration statements (No. 333-141639, No. 333-184955 and No. 333-206338) on Form S-8 of Cellcom Israel Ltd. ("the Company") of our report dated March 25, 2018, with respect to the consolidated statements of financial position of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017, and the effectiveness of internal control over financial reporting as of December 31, 2017, which report appears in the December 31, 2017 annual report on Form 20-F of the Company.

Our report refers to a change in our method of accounting for revenues in 2017 due to the adoption of International Financial Reporting Standard No. 15 *Revenue from Contracts with Customers*.

Somekh Chaikin

Certified Public Accountants (Israel)
Member Firm of KPMG International

Tel Aviv, Israel

March 26, 2018

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-141639, No. 333-184955 and No. 333-206338) of Cellcom Israel Ltd. of our report dated March 14, 2017 relating to the consolidated financial statements, which appears in this Form 20-F.

Tel-Aviv, Israel
March 26, 2018

/s/ Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers
International Limited



March 26, 2018

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Commissioners:

We have read the statements made by Cellcom Israel Ltd. in Item 16F of the Form 20-F of Cellcom Israel Ltd. dated March 26, 2018, which we understand will be filed with the Securities and Exchange Commission. We agree with the statements concerning our Firm in Item 16F of such Form 20-F.

Kind regards,

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited
