Cellcom Israel Ltd.
Form 20-F
March 16, 2015

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

FORM 20–F

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

OR

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

OR

o 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 42140, Israel

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2014, the Registrant had outstanding 100,584,490 Ordinary Shares, par value NIS 0.01 per share.

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

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

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

Indicate by check mark whether the Registrant (1) 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

U.S. GAAP [ ]

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

Other [ ]

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

Item 17 [ ]

Item 18 [ ]

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

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INTRODUCTION

In this annual report, "Cellcom," the "Company," "we," "us" and "our" refer to Cellcom Israel Ltd. and its subsidiaries. T 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 3.889 to $1.00, the representative rate of exchange as of December 31, 2014 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, Geocartography Research Institute, Rotem TRI Institute, Informa Telecom, OVUM 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 n 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

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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 and the notes thereto included elsewhere in this annual report.

The selected data presented below under the captions "Income Statement Data" and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 2014, are derived from the consolidated financial statements of Cellcom Israel Ltd. and subsidiaries, which financial statements have been audited by Somekh Chaikin, an independent registered public accounting firm and a member firm of KPMG International. The consolidated financial statements as of December 31, 2013 and 2014, and for each of the years in the three-year period ended December 31, 2014, and the report thereon, are included elsewhere in this annual report. The selected data should be read in conjunction with the consolidated financial statements, the related notes, and the independent registered public accounting firm's report and the convenience translation of the consolidated financial statements as of and for the year ended December 31, 2014 into U.S. dollars solely for the convenience of the reader.

On August 31, 2011, we completed the acquisition of 100% of the share capital of Netvision Ltd., or Netvision. Therefore, the consolidated results for the year ended December 31, 2011, included elsewhere in this annual report, include Netvision's results for the months of September through December 2011 only.

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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, 2014, translated using the rate of NIS 3.889 to $1.00, the representative rate of exchange on December 31, 2014 as published by the Bank of Israel.

	Year Ended December 31,					
	2010	2011(1)	2012	2013	2014	2014
	(In NIS millions, except per share data)					(In US$ millions)
Income Statement Data:						
Revenues	6,662	6,506	5,938	4,927	4,570	1,175
Cost of revenues	3,322	3,408	3,463	2,990	2,727	701
Selling and marketing expenses	756	990	865	717	672	173
General and administrative expenses	641	685	629	570	463	119
Other (income) expenses, net	5	1	(4)	(1)	46	12
Operating income	1,938	1,422	985	651	662	170
Financing expense, net	230	293	259	246	198	51
Income tax	417	304	195	117	110	28
Net income	1,291	825	531	288	354	91
Basic earnings per share	13.04	8.28	5.34	2.89	3.51	0.90
Diluted earnings per share	12.98	8.28	5.33	2.86	3.48	0.89
Weighted average ordinary shares used in calculation of basic earnings per share	98,979,544	99,476,671	99,481,487	99,495,525	99,924,306	
Weighted average ordinary shares used in calculation of diluted earnings per share	99,480,791	99,511,433	99,609,722	100,319,724	100,706,282	
Other Data:						
EBITDA(2)	2,667	2,167	1,753	1,335	1,282	330
Capital expenditures	735	520	537	384	487	125
	13.85	7.88	1.31	0.85	-	-

Dividends declared per share						
Net cash from operating activities	2,380	1,332	1,641	1,556	1,557	400
Net cash used in investing activities	(889)	(1,656)	(708)	(344)	(350)	(90)
Net cash from (used in) financing activities	(1,861)	715	(439)	(1,569)	(1,106)	(284)
Cellular Subscribers (in thousands)(3)	3,394	3,349	3,199	3,092	2,967	
Churn rate of cellular subscribers(4)	20.5%	25.1%	31.5%	36.8%	44%	
Cellular ARPU (in NIS)(5)	144	106	88	78	72	19
Balance Sheet Data:						
Cash	533	920	1,414	1,057	1,158	298
Working capital	924	679	1,232	1,082	837	215
Total assets	5,996	8,557	8,787	7,579	7,240	1,862
Total equity	341	187	500	710	1,092	281

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(1) The consolidated financial results for the year ended December 31, 2011 include the results of Netvision, our wholly owned subsidiary, for the months September through December 2011. We consummated the acquisition of Netvision on August 31, 2011.

(2) EBITDA is a non-IFRS measure and is defined as income before financing income (expenses), net; other income (expenses), net (excluding one-time expense related to employee retirement plan); 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 that these measures are calculated.

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The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,					
	2010	2011	2012	2013	2014	2014
	(In NIS millions)					(In US$ millions)
Net income	1,291	825	531	288	354	91
Financing expense, net	230	293	259	246	198	51
Other expenses (income), net	5	1	(4)	(1)	7	2
Taxes on income	417	304	195	117	110	28
Depreciation and amortization	724	738	765	676	610	157
Share based payments	-	6	7	9	3	1
EBITDA	2,667	2,167	1,753	1,335	1,282	330

(3) 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 by or in relation to the post-paid subscribers, no revenue generating calls or SMS for pre-paid subscribers 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. During the fourth quarter of 2011, we removed approximately 52,000 subscribers from our subscribers base, which included subscribers using our TDMA network who had not requested a transfer to our other networks following the shutdown of our TDMA network as of December 31, 2011, and subscribers who ceased using our services following a change to our policy which previously allowed subscribers to change from post to prepaid subscription as a result of the reduction of early termination fees in plans which include a commitment to a predefined period, or Early Termination Fees, in the cellular market in early 2011. These changes affected other key performance indicators. In the fourth quarter of 2012 we removed approximately 138,000 M2M subscribers from our subscriber base, following the addition of the above revenue generation criterion for M2M subscribers. This change had an immaterial effect on our ARPU for 2012. 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 no revenue generating calls or SMS. Following each of these changes, we have not restated prior subscriber data to conform with this change.

(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 services are included even though the number of cellular subscribers in the equation does not include the users of those roaming and hosting services. Inbound roaming services and hosting services are included because ARPU is meant to capture all service revenues generated by a cellular network. Revenues from sales of extended warranties 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), 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,					
	2010	2011	2012	2013	2014	2014
	(In NIS millions, except number of subscribers and months)					(In US$ millions)
Revenues	6,662	6,506	5,938	4,927	4,570	1,175
less revenues from equipment sales	802	1,747	1,356	942	1,005	258
less other revenues*	124	484	1,125	1,034	941	242
Revenues used in cellular ARPU calculation	5,736	4,275	3,457	2,951	2,624	675
Average number of cellular subscribers	3,322,891	3,361,803	3,291,843	3,135,857	3,034,946	3,034,946
Months during period	12	12	12	12	12	12
Cellular ARPU (in NIS, per month)	144	106	88	78	72	19

* Other revenues include revenues from other communications services such as ISP, transmission services, local and international landline services and repair services.

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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 2014	3.695	3.578
October 2014	3.793	3.644
November 2014	3.889	3.782
December 2014	3.994	3.889
January 2015	3.998	3.889
February 2015	3.966	3.844

On March 13, 2015 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 4.015 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)
2010	3.732
2011	3.582
2012	3.844
2013	3.601
2014	3.593

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.

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Risks Related to our Business

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

A substantial part of our operations is subject to the Israeli Communications Law, 1982, the Israeli Wireless Telegraph Ordinance (New Version), 1972, the regulations promulgated thereunder and the 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 of the Communications Law, Wireless Telegraph Ordinance and regulations and the provisions of our general licenses, as well as our other licenses, 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, as well as the authority to impose substantial sanctions in the event of a breach of our licenses or the applicable laws and regulations. Further, in the event that we materially violate the terms of our licenses, the Ministry of Communications has the authority to revoke them. 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.

Our general cellular license is valid until February 2022. It may be extended for additional six-year periods upon our request to the Ministry of Communications and confirmation from the Ministry of Communications that we have complied with the provisions of our license and the applicable law, have continuously invested in the improvement of our service and network and have demonstrated the ability to do so in the future. Netvision's Internet Service Provider, or ISP, license and International Long Distance, or ILD, license, are valid until April 2017 and May 2025, respectively and may be extended for additional five and ten year periods, respectively, on terms similar to those provided in our cellular license. Our other licenses are also limited in time. Our licenses may not be extended when necessary, or, if extended, the extensions may be granted on terms that are not favorable to us. In addition, the Ministry of Communications has modified and may modify our licenses without our consent and in a manner that could limit our freedom to conduct our business and harm our results of operations. Possible changes to our licenses and legislation which would require us to change our pricing plans and information systems frequently or on a timetable we cannot meet, can increase the risk of noncompliance with our licenses or violation of such legislation and our exposure to lawsuits and regulatory sanctions.

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

- do not approve the network and site sharing agreements we entered with Pelephone communications Ltd., or Pelephone, and Golan Telecom Ltd., or Golan, our competitors, or approve them subject to conditions that are adverse to us, more so if the regulators do approve a similar agreement between our other competitors, or provide such approval on an earlier date than for our agreements or under more lenient terms. For additional details, see "-We face intense competition in all aspects of our business" and "We may be adversely affected by the significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business" below and "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements" and "-Competition";

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- reduce tariffs, or otherwise intervene in the pricing policies for our products and services, including by: intervening in pricing of bundles of services or roaming services, or prohibiting subscription or other fees for certain services. For additional details regarding such steps already implemented and outstanding hearings see "Item 4. Information on the Company – B. Business Overview – Government Regulations – Tariff Supervision" and "Item 4. Information on The Company – B. Business Overview – Netvision`" for additional details;

- set unfavorable national roaming tariffs or Mobile Virtual Network Operator, or MVNO, hosting tariffs, or require us to provide wholesale services on our landline infrastructure or provide and purchase such services at unfavorable tariffs, or set reduced interconnect tariffs so that they do not represent cost plus reasonable profit. See "Item 4. Information on the Company – B. Business Overview - "Government Regulations - Tariff Supervision", "-Additional MNOs", and "– Landline";

- award new or smaller competitors certain benefits and leniencies not available to existing cellular operators, including through waiving, easing or not enforcing requirements set in the licenses of mobile network operators, or MNOs, or by limiting our ability to compete, including by providing preference to new or smaller competitors in the allocation of frequencies or otherwise. See "Item 4. Information on the Company – B. Business Overview - Competition", "-Government Regulations – Mobile Virtual Network Operators" and "- Additional MNOs" for additional details;

- allow other operators to provide services previously provided only by us to our subscribers, including roaming services;

- do not renew our licenses or the allocation of our frequencies or demand that we return frequencies allocated to us;

- 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, including in relation to site and network sharing;

- impose restrictions on the provision of services or products we currently provide or regulate or otherwise intervene with the terms under which we advertise and market them and provide them to our subscribers, including in respect of existing agreements.;

- limit or otherwise intervene with the services or products that we may sell;

- 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;

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- impose the laws and regulations applicable to charge cards on the clearing services we provide to third party providers, including liability for misuse and liability imposed on internet online and telephonic transactions. The Israeli Attorney General has given such opinion to two separate tribunals (which have not yet ruled on the matter);

- impose a stricter policy with respect to privacy protection, such as with regard to data protection, collection, amelioration or usage of data for marketing activities;

- impose structural or operational separation between our and Netvision's operations (partial or full) or between the different services within each company or otherwise limit our ability to offer bundles of services;

- set unfavorable regulation regarding international communications services and the landline wholesale market. See "Item 4. Information on The Company – B. Business Overview –Government Regulations – Landline".

- impose regulation on our recently launched OTT TV services, including the requirement to finance original productions, whether as TV provider or infrastructure (MNO and ISP) provider or imposing unfavorable terms for the usage of the Digital terrestrial television (DTT) broadcasting in Israel. See "- Item 4. Information on the Company – B. Business Overview – Government Regulations OTT TV".

See "Item 4. Information on the Company – B. Business Overview – Government Regulations Our Principal License" and "- Other Licenses".

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, including the cellular, internet access, or ISP, and international calling, or ILD, service markets. The competition level has increased substantially in recent years, following the entry of additional competitors and regulatory changes alleviating entry barriers and transfer barriers. The intensified competition led to price competition, the adverse effects of which includes an increased churn rate and increased subscriber acquisition costs, in addition to accelerated price erosion, specifically in the cellular market, all of which have ultimately led to a material decrease in revenues and profitability for us and other MNOs. The current level of competition and price erosion are expected to continue in the cellular, ISP and ILD markets and is expected to intensify in the multichannel television market following our recent entry to this market and in the landline market once the wholesale market, formally launched in February 2015, is effective. See also the "Competition" section under "Item 4. Information on the Company - B. Business Overview","-Netvision - ISP Business" and "-Netvision - Telephony Business". Should the current level of competition continue, it will continue to materially adversely affect our results of operations. Any of the following developments materializing in our market, may result in a further materially reduced profitability for us:

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- the approval and execution of a network sharing agreement between our competitors, more so if not coupled with an approval and execution of similar agreements by us, given the material savings in expenditures and investments that can be achieved by such sharing of networks, as well as from the exemption from the requirement to build a 3rd generation network provided to our competitors Golan and Hot Mobile Ltd., or Hot Mobile, embedded in such network sharing approval. The approval of network sharing agreements would substantially decrease Golan and Hot's expenditures, specifically their variable cost per customer. Network sharing will also allow Hot Mobile and Golan to offer hosting services to MVNOs, whereas presently they do not. For details regarding the sharing agreements see "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements" and "-Government Regulation –Network Sharing".

- 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 pricing of the wholesale services in relation to the offering of services by the Bezeq and Hot groups at tariffs lower than prevailing market tariffs or lower than our costs for these services, as it may impede our ability to provide competitive bundles and adversely affect our services dependent on landline infrastructure currently purchased or to be purchased by us under the wholesale market, such as ISP, landline telephony, and OTT TV, more so when coupled with increasing demand for greater bandwidth, resulting in higher costs while revenues decrease.

- increased competition in the hosting services market. If our sharing agreements are not approved, Golan may choose to purchase (subject to our national roaming agreement conditions) future national roaming services elsewhere or engage in a network sharing agreement with another operator, resulting in the loss of revenues from national roaming services to us. For details regarding the sharing agreements see "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements".

- 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, TV and infrastructure markets. See "Item 4. Information on The Company –B. Business Overview –", "-Government Regulations – Landline" for additional details.

- 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 - Government Regulation – Our principal license", "Other Licenses –Unified License" and "-Additional MNOs".

- the continued increased competition in the handsets market , may result in decreased handset sales, and even an inability to meet our contractual obligations to purchase a minimal quantity of handsets from Apple,. See "Item 4. Information on The Company –B. Business Overview – Competition" for additional details.

- inability to attract and retain subscribers to our recently launched OTT TV services or price erosion in the TV market due to increased competition.

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

We depend on our network of cell sites to maintain and enhance network coverage for our subscribers. 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, 2014, 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. Our reliance on the exemption for radio access devices had been challenged and is currently awaiting ruling by the Israeli Supreme Court. Under an interim order issued by the Supreme Court in September 2010, we are unable to rely on the exemption in cellular networks, other than to replace existing radio access devices in certain conditions, until regulations limiting such reliance are enacted or a different decision by the court is made. Draft regulations submitted to the Economy Committee of the Israeli Parliament in March 2010 for approval, include significant limitations on the exemption which will render the construction of radio access devices based on the exemption practically impossible.

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.

Operation of a cell site or other facility without a building permit or not in accordance with the permit or other legal requirements may result in the issuance of a demolition order for the cell site or other facility or the bringing of criminal charges against us and our officers and directors. As of December 31, 2014, criminal and administrative proceedings were pending with respect to four sites and a demolition order has been granted with respect to two cell sites while the remaining two proceedings are pending further litigation.

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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. Should we fail to obtain building permits for our cell sites or other facilities, including in the event that our reliance upon an exemption from the requirement to obtain building permits for these cell sites and other facilities is found invalid, the Commissioner will not grant or renew our operating permits for those cell sites and other facilities. Since October 2007, the Commissioner will not grant or renew operating permits to radio access devices where the local planning and building committee's engineer objected to our reliance upon the said exemption. Operating a cell site or a facility without an operating permit or in conflict with the permit or in violation of the Non-Ionizing Radiation Law, could 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 permit, as well as to withholding the grant of permits to additional cell sites. Should any of our officers or directors be found guilty of an offense, they may face monetary penalties and a term of imprisonment. Our cell sites may be the subject of demolition orders and we may be required to relocate cell sites to less favorable locations or stop operation of cell sites

Certain proposed amendments to the Non-Ionizing Radiation Law and Regulations and the Planning and Building Law, propose setting additional restrictions in relation to the operation of cell sites and other facilities, such as setting larger distance requirements between cell sites locations and residences or certain institutions.

In June 2010, proposed changes to the Israeli National Zoning Plan 36, or the Plan, which regulates cell site construction and operation, were approved by the Israeli National Council for Planning and Building and submitted for the approval of the Government of Israel. The proposed changes, if approved, would place additional restrictions on the construction and operation of cell sites. Several local planning and building authorities are claiming 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 and have refused to provide a building permit in a number of cases. The current proposed draft amendment to the Plan covers all new cell sites requiring a building permit, independently of the frequencies in which they operate. Most of our cell sites and many cell sites operated by other operators also operate in frequencies not specifically detailed in the Plan. In July 2011, an inter-ministry team of the Ministries of Communications, Finance, Interior, Environmental Protection and the Anti-Trust Commissionaire, published its recommendations regarding compulsory cell site sharing in the construction of new cell sites or modification of existing cell sites which require a building permit. 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 any of the proposed changes noted above are adopted, 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 - Permits for Cell Site Construction".

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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.

As of December 31, 2014we have one demand from a local committee to indemnify it based on such an indemnification letter, for an immaterial amount.

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 a public debate and concern in Israel. While, to the best of our knowledge, the handsets that we market comply with the applicable legislation that relate to acceptable "specific absorption rate," or SAR, levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual level of SAR of the handsets throughout the lifecycle of the handsets, including in the case of handset repair. See also "Item 4. Information on the Company – B. Business Overview - Government Regulations - Handsets". In July 2008, the Israeli Ministry of Health published recommendations to take precautionary measures when using cellular handsets, which has increased the concerns of the Israeli public. In May 2011, the International Agency for Research on Cancer, an agency of the World Health Organization, or WHO, issued a press release classifying radiofrequency electromagnetic fields 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. In June 2011, the WHO publication noted that to date, no adverse health effects have been established as being caused by mobile phone use and while an increased risk of brain tumors is not established, the increasing use of mobile phones and the lack of data for mobile phone use over time periods longer than 15 years warrant further research of mobile phone use and brain cancer risk, particularly given recent popular use by younger people with potentially longer periods of exposure. However, in September 2014, the Israeli Ministry of Health updated the possibly carcinogenic to humans elements list in its site, according to the WHO classification. Several bills, aimed at increasing awareness of the possible risks of cellular phones usage, reducing usage thereof and introducing precautionary measures are awaiting deliberation by the Israeli Parliament. In January 2013, the Ministry of Science and Technology and the Ministry of Environmental Protection announced the establishment of a non-ionizing radiation information center that will provide information to the public, issue warnings and guidelines for reducing exposure to risks in general and specifically in regards to sensitive populations and perform and coordinate research in that regard.

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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 Ministries with respect to radiation safety, include the position that cell sites constructed pursuant to a building permit are preferable to radio access devices, that 4G services involve some increase in the level of non-ionizing radiation the public will be exposed to and therefore should have limited permitted usage 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 or additional requirements or limitations are imposed on the marketing of cellular products or services, 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. See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Legal Proceedings – Class Actions" for additional details on two class actions filed against us in that respect. 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 September 2013, we recognized the Histadrut, an Israeli labor union, as the union representing the Company's and Netvision's employees and in February 2015, we entered a collective employment agreement with the Company's employees' representatives and the Histadrut for a term of 3 years (2015-2017). The agreement defines employment policy and terms in various aspects, including payments to the employees and procedures relating to manning a position, change of place of employment and dismissal, including management and employees' representative 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 plan carried out in the second quarter of 2014, and may require more management attention, that would otherwise be available for our ongoing business. Although to date, we have not suffered any work stoppages or other disruptions to our operation, future disagreements with the employees' representatives may trigger 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. 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.

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

In order to attract and retain the maximum number of subscribers in our highly competitive market, we design various pricing plans for stand-alone services as well as bundles of services. We require sophisticated information systems to accurately record subscriber usage pursuant to the particular terms of each subscriber's plan as well as accurate database management and operation of a very large number of pricing plans. From time to time, we have detected some discrepancies between certain pricing plans and the information processed by our internal information systems, such as applying an incorrect rebate or applying an incorrect tariff to a service resulting in a higher charge. We have invested substantial resources to refine and improve our information and control systems and ensure that our new pricing plans are appropriately processed by our information systems; we have also taken steps to remedy the identified discrepancies and have established reserves where the discrepancies are quantifiable. Despite our substantial investments, we may experience discrepancies in the future due to the multiplicity of our plans, the frequent changes to our licenses and relevant legislation governing our pricing plans and the scope of the processing tasks. While we are in the process of creating one billing and Customer Relation Management, or CRM, systems for both Cellcom and Netvision, until such process is completed, the involvement of both companies systems and integration process itself, increases the risk for such discrepancies to occur. Further, while we invest substantial efforts in monitoring our employees and third-party distributors and dealers that market our services, it is possible that some of our employees, distributors or dealers may offer terms and make (or fail to make) representations to existing and prospective subscribers that do not fully conform to applicable law, our licenses or the terms of our pricing plans. As a result of these discrepancies, we may be subject to subscribers' claims, including class action claims, and substantial sanctions for breach of our licenses or the applicable laws and regulations that may materially adversely affect our results of operations. Further, frequent and multiple changes to our general license and relevant legislation require ongoing changes to our operations, pricing plans and supporting information systems. Such changes increase the risk that our employees, distributors and dealers and our information systems will not fully support such changes. As of January 1, 2013, each discrepancy from the customer's pricing plan, remedied after the customer complained, awards the customer with predefined damages in an insignificant amount, but may aggregate to substantial amounts if paid to numerous customers on multiple occasions. Several purported class actions were filed against us in that respect. In August 2014, the Ministry of Communications proposed a bill aiming to impose substantially increased predefined damages for any discrepancy from the customer's pricing plan, which may aggregate to substantial sums if paid to numerous customers on multiple occasions.

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

We provide services to millions of subscribers on a daily basis. As a result of the scope and magnitude of our operations, we are subject to the risk of a large number of lawsuits, including class action suits by consumers and consumer organizations, with respect to billing and other practices, such as customer care practices, marketing, including mass media marketing as well as sending commercial messages to customers, data collection and usage practices, offering practices of products and services, including third parties' products and services and practices related to the provision of such services to our customers, such as disclosure requirements. These actions are costly to defend and could result in significant judgments against us. Recent years were characterized by a substantial increase in the number of requests for certification of class actions filed and approved in Israel. In December 2011, a class action was decided against us (we appealed the decision and the Supreme Court annulled such judgment and approved a settlement). In November 2013, another request to certify a lawsuit filed against us as class action was approved. In addition, we have entered several settlement agreements, mostly for immaterial sums. The number of purported class actions filed against us in the last three years amounts to over one third of all purported class actions filed against us since our inception, thereby increasing our legal exposure and our legal costs in defending against such suits, which as a result may materially and adversely affect our financial results. This trend is expected to continue, encouraged also by amendments to the Consumer Protection Law, stricter policy by regulators, amendments to the Communications Law such as regulating "spam" as well as the growing tendency of adopting comprehensive and burdensome regulation for the telecommunications market. This trend is also expected to include higher involvement of consumer organizations (whether by filing such suits, opposing settlement agreements and advocating the filing of lawsuits) and the Advocate General (opposing settlement agreements). Currently, we are engaged in dozens of purported class action suits as a defendant, many of which are for substantial amounts. Should these requests to certify lawsuits against us as class actions are approved and succeed, this may have a material adverse effect on our financial results. For a summary of certain material legal proceedings against us, see “Item 8 – Financial Information - A. Consolidated Statements and Other Financial Information –Legal Proceedings”.

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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, including in relation to television content, photographs, music, music-related or other content services we purchase from third party content providers. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages or may be required to obtain licenses for the infringing product or service, 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 systems. The offering of bundles of services by us and Netvision, following our merger, increased the number of complex technological systems involved in providing service to our customers and in the billing process of our customers, resulting in some cases in cumbersome procedures, inefficient usage of resources and lack of uniformity. 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 billing system and one CRM system for both companies, 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, which may lead to loss of revenues, legal claims and regulatory sanctions. We are substantially relying on outsourced services in respect of our critical information systems, which could result in an adverse effect on the quality of our customer service, loss of internal knowledge and capabilities and substantially higher dependency on the supplier of such outsourced services, and which may lead to diversion of management attention. For additional details regarding our information systems agreements, see "Item 4. Information on the Company - B. Business Overview - Network and Technology - Information technology". A malfunction in any of our systems which severely impacts our ability to provide products and services to our customers may result in loss of revenues to us, may adversely impact our brand and service perception, and expose us to legal claims, all of which may adversely affect our results of operations.

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Our operations are dependent on various information systems. The unauthorized entry to or disruption of operation of these information systems, including due to cyber attacks, may result in damage to us and our customers. Such damages could include our inability to provide certain services without disruptions, if at all, our inability to bill for services rendered or loss of data to us and our customers, all of which may expose us to legal claims and liabilities. Further, any successful attacks on Netvision's customers' information systems, protected by Netvision's data security products, may also expose Netvision to legal claims and liability.

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, Discount Investment Corporation Ltd., or DIC (or its transferee or transferees, if approved in advance by the Ministry of Communications as "founding shareholders"), must own at least 26% of each of our means of control;

- Israeli citizens and residents among our founding shareholders (or their approved transferees) must own at least 20% of our outstanding share capital and each of our other means of control (DIC has agreed to comply with this requirement);

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

- at least 20% of our directors must be appointed by Israeli citizens and residents among our founding shareholders; and

- we are required to have a committee of our Board of Directors that deals with matters relating to state security, which must be comprised of at least four directors (including an external director) having the requisite security clearance by Israel's General Security Service.

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

As a result of a rights offering effected by IDB in February 2015, the ownership percentages in IDB of its controlling shareholders, and consequently indirectly in us, have changed and will require the approval of the Ministry of Communications, including due to the Israeli holding requirements included in our communications licenses. We have already approached the Ministry of Communications and intend to file a formal request with the MOC for its approval of such changes, which may include a request to amend our communications licenses, including with regards to the Israeli holdings requirement in us as preset forth in such licenses. As of the date of the filing of this annual report, such changes in the ownership percentages in IDB are being contested by one of the controlling shareholders. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders."

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

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

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

Although our articles of association contain certain provisions that are aimed at reducing the risk that holdings or transfers of our ordinary shares will contravene our license, we cannot entirely control these and other matters required by our license, the violation of which could be a basis for suspending or revoking our license. Our other licenses and Netvision's licenses contain similar restrictions, with the Ministry of Communications' approval required for the transfer of shares representing 5% or more of our (or Netvision, as the case may be) outstanding share capital. See also "Item 4. Information on the Company – B. Business Overview – Government Regulations Our Principal License" and "-Other Licenses" and "Item 4. Information on The Company – B. Business Overview – Netvision".

We may be adversely affected by the significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business.

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 a growing demand for Internet, content and data through advanced third and fourth generation cellular phones, smartphones, modems, tablets and other devices using cellular data that resulted in a rapid and immense growth of data traffic on cellular networks and required cellular operators to upgrade their networks to accord such demand. Transfer of subscribers to Unlimited Packages of services, MVNO hosting services and national roaming on our network, have contributed to the substantially growing demand for data traffic on our network, as well as to voice and text messages. We estimate that data traffic will continue to rapidly grow in the future. To meet the growing demand for cellular data traffic, we are required, among others, to continue our substantial investment in our 4G network (launched in 2014) and upgrading our transmission network, to allow larger capacity and higher data speed rates. In addition, as in order to provide optimal performance, our LTE network would require additional frequencies to those allocated to us under the LTE frequencies tender, as the Ministry of Communications expects us to evacuate 12 1800MHz which were allocated to us for our 2G network to be used by our LTE network, the frequencies available to our 2G network will be substantially fewer and may adversely affect our 2G network performance.

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Under our network sharing agreement with Golan, the operation and maintenance of the shared 4G radio network will be carried out by a separate newly created entity, equally owned by us and Golan. This means that should this agreement be approved and executed, decision making will no longer take only our interests and desires into consideration. Further, such unification of cell sites may results in local degradation of service to our customers due to relocation of cell sites which may lead to dissatisfaction among such customers and require us to invest in local solutions, such as repeaters. In addition, should Golan customers use solely our networks under the network sharing agreements, whereas presently they use both ours and Golan's cell sites, specifically if Golan's subscribers' data traffic would increase substantially, may result in adverse effect on our ability to continue to support the demand for cellular data traffic and market our products and services effectively, more so if we are unable to use Golan's cell sites. In addition, after termination of our network sharing agreement, Golan will be entitled to purchase usage rights in our passive infrastructure, which may limit our ability to use it to meet all our needs. For additional details regarding the network sharing agreements see "Item 4. Information on The Company – A. History And Development Of The Company- Our History - Strategic network sharing agreements in 2013" and "- B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements".

If we cannot obtain or maintain favorable arrangements with foreign telecommunications operators, our services may be less attractive or less profitable.

We rely on agreements to provide roaming capabilities to our cellular subscribers in many areas outside Israel. As of December 31, 2014, we had roaming arrangements with 572 cellular providers in 179 countries around the world. However, we cannot control the quality of the service that they provide and it may be inferior to the quality of service that we provide. Equally, our subscribers may not be able to use some of the advanced features that they enjoy when making calls on our network. Some of our competitors may be able to obtain lower roaming rates than we do because they may have larger call volumes or can use more favorable agreements of their overseas affiliates. If our competitors' providers can deliver a higher quality or a more cost effective roaming service, then subscribers may migrate to those competitors and our results of operation could be adversely affected, more so if the proposed amendment to our license, allowing other operators to provide roaming services to our subscribers, will be adopted. Further, we may not be able to compel providers to participate in our technology migration and enhancement strategies. As a result, our ability to implement technological innovations could be adversely affected if these overseas providers are unable or unwilling to cooperate with the further development of our network or if they cease to provide services comparable to those we offer on our network.

Inbound roaming to our network is also influenced by our ability to maintain favorable roaming arrangements. The entry of additional UMTS providers has not only increased competition regarding outgoing roaming services but also increased competition on inbound roaming services. Additional operators or the abovementioned proposed amendment to our license, may increase such competition further.

In recent years, roaming tariffs for our subscribers have decreased. If roaming tariffs continue to decrease including as a result of the increasing competition or the changing regulation, this could adversely affect our profitability and results of operations.

We also rely on agreements with foreign carriers to provide ILD services by Netvision as well as its international voice hubbing (providing ILD services to foreign operators) services. The risks detailed above in relation to roaming services and possible effects of such risks, apply to Netvion's ILD and hubbing services as well. See "Item 4. Information on The Company – B. Business Overview – Netvision – Telephony Business".

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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; regulatory change, market terms and our financial results may affect our possibilities to raise debt.

As of December 31, 2014, our total indebtedness was approximately NIS 4,640 million ($1,193 million), with our net debt at approximately NIS 2,962 million ($762 million). For additional details see "Item 5. Operating and Financial Review and Prospects. – B. Liquidity and Capital Resources – General". The indentures governing our debentures currently permit us to incur additional indebtedness (subject in some cases to certain limitations). Given the significant decrease in our operating results in recent years, which we expect will continue and will adversely affect our cash flows going forward, 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 3,222 million ($828 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.

Following circulars of the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance published on October 2010 and August 2013, instructing institutional investors to follow certain procedures and requirements before investing in non-governmental debentures our series F through I 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.

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Since 2011, we suffered a significant decrease in our operating results, following certain regulatory changes, intensified competition and price erosion (see "Item 4. Information on the Company – B. Business Overview –Competition" and "-Additional MNOs"). In May 2012 and in June 2013, the rating of our debentures was downgraded due to increased leverage and competitive pressure. This and 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 I indentures as the ratio of net debt to EBITDA during a period of 12 consecutive months, excluding onetime influences), may adversely affect the terms and price of 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 we are a member of IDB's group of borrowers), may limit our ability to obtain additional financing to operate, develop and expand our business or to refinance existing debt.

See also the law for the promotion of competition and the mitigation of concentration under "Risks Relating to Our Ordinary Shares - Recent Legislation in Israel affecting corporate conglomerates, could adversely affect us" below, which may adversely affect our possibilities of raising debt from Israeli institutional investors.

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 2012, 2013 and 2014, payments denominated in, or linked to, foreign currencies, mainly U.S. dollars, represented approximately 36%, 24% and 20%, respectively, of our total cash outflow (including payments of principal and interest on our debentures). These payments included capital expenditures, some cell site rental fees, payments for roaming services and to equipment suppliers including handset suppliers and part of our dividend payments. In 2014, the U.S. dollar exchange rate to NIS has increased substantially. As almost all of our cash receipts are in NIS, any devaluation of the NIS against the foreign currencies in which we make payments, particularly the U.S. dollar, will increase the NIS cost of our foreign currency denominated or linked expenses and capital expenditures. In 2014, the U.S. dollar, in particular, strengthened against the NIS, resulting in increased costs for us.

Furthermore, since the principal amount of and interest that we pay on our Series B, D, F and H 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. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service" for details.

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

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

In February 2006, we adopted a dividend policy targeting a payout ratio of at least 75% of our net income in each calendar year, subject to any applicable law, our license and contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. Our series F through I indentures contain a covenant not to distribute more than 95% of the profits available for distribution according to the Israeli Companies Law 1999, or Companies Law, or Profits. Moreover, under such indentures, if our net leverage (defined as the ratio of net debt to EBITDA during a period of 12 consecutive months, excluding certain one-time effects) 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 paid in the past. Since 2012 our board of directors declared a dividend for the first quarter of 2012 and third quarter of 2013 only, constituting 75% of our net income and part of our retained earnings from earlier periods, respectively, whereas for the second, third and fourth quarters of 2012 and the first, second and fourth quarters of 2013 and 2014, 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 a limited number of suppliers for key equipment and services. Netvision does not own its own infrastructure and is dependent on its infrastructure providers

We depend upon a small number of suppliers to provide us with key equipment and services. For example, Nokia Solutions and Networks Israel, or NSN, provides our network system based on LTE technology and GSM/GPRS/EDGE technology, our UMTS/HSPA core system, part of our radio access network and related products and services, and our landline New Generation Network system, or NGN system; 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; Amdocs Israel provides us operating ,development and maintenance services to our billing and CRM systems; Alcatel Lucent provides our Carrier Ethernet network and SDH equipment for our transmission 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 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. Any regulatory change which will prevent us from using the DTT or condition such usage on unfavorable terms, degradation of service quality, or labor disputes affecting the service, may adversely affect our services, which may harm our ability to compete and result in loss of customers and revenues.

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We are further dependent on infrastructure providers for Netvision's ISP, ILD, landline telephony (using Voice over Broadband, or VOB technology) and our OTT TV services. Those providers include Mediterranean Nautilus Ltd. and Mediterranean Nautilus (Israel) Ltd., or collectively Med Nautilus, which connects the Israeli internet network to the "entry points" of the global internet network, as well Israeli telephony, via an underwater communications cable, and Bezeq and Hot, which provide broadband infrastructure in Israel. Should we enter an agreement for the purchase of broadband infrastructure services with IBC, we may acquire broadband services from it as well. Should an effective landline wholesale market materialize, we may purchase services from Bezeq and Hot in order to provide internet infrastructure and landline telephony services to our customers, in which case we would be dependent on Bezeq and Hot for such services as well. Bezeq has experienced labor disputes, including stoppages, during the privatization process and liberalization of the landline market, Hot has experienced labor disruptions, during a unionization attempt in the last years and IBC's manpower (many of them are employees of the Israeli Electric Company, or IEC's (one of IBC owners) have been reported to delay IBC's operation until their demands were met. Additional disruptions, stoppages and slowdowns may be experienced in the future and adversely affect our operations. See also "Item 4. Information on The Company – B. Business Overview – Netvision".

If these suppliers fail to provide equipment or services to us that meet requisite quality standards or on a timely basis, or at unfavorable terms to us, we may be unable to provide services 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. Further, in November 2011 the Ministry of Communications published in a hearing about proposed regulation of the underwater international telecommunications connection from Israel that would impose certain limitations on agreements with Med Nautilus, which would limit the discounts and capacity Med Nautilus may provide.

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 - Handsets" for additional details. Advanced Digital Broadcast S.A., or ADB, provides our set-top boxes for our OTT TV services. Vubiquity Management Ltd., or VU, provides us international content and content operation services and RGE Group Ltd., or RGE, provides our sports application and content operation services, both for our OTT TV services. Should any of these suppliers refuse to sell equipment or content, as applicable, to us, condition such sales on unfavorable terms and conditions 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, this could have a material adverse effect on our handset sales or OTT TV services revenues, as applicable, and results of operations.

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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 our OTT TV solution, which we recently launched. 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, especially in businesses that require long term and fixed cost such as for the purchase of content in favor of our OTT TV services, 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 operating difficulties 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, as triggered in December 2014 by Hot after the launch of our OTT TV services.

We are a member of the IDB group of companies, a large and highly regulated Israeli business group, which may limit our ability to expand our business, to acquire other businesses or raise debt. The effects on us of IDB's financial condition are unclear.

We are an indirect subsidiary of IDB Development Corporation Ltd., or IDB, large and highly regulated Israeli business group. In May 2014, a creditors' arrangement (approved by the Israeli court in January 2014) for IDB Holding Corporation Ltd., or IDB Holding, was consummated, under which the control over IDB, (which was at the time IDB Holding's wholly owned subsidiary) was transferred to two companies, one controlled by Mr. Eduardo Elzstain and one by Mr. Mordechai Ben Moshe, in equal parts. As a result, the indirect control in the Company was transferred to such entities. IDB's financial statements for the third quarter of 2014 included a note regarding the existence of significant doubts as to its ability to continue as a going concern due to its liquidity condition. IDB's financial condition could have an adverse effect on our debentures rating, or on the terms of any new debt raised. In addition, pursuant to the “Guidelines for Sound Bank Administration” issued by the Israeli Supervisor of Banks, the amount that an Israeli bank may lend to one group of borrowers and to each of its six largest borrowers is limited. Since we are a member of IDB’s group of borrowers, these guidelines may limit the ability of Israeli banks to lend money to us.

Under the Law for the Promotion of Competition and the Mitigation of Concentration, or the Concentration Law, competitive and control concentration factors, both of a certain market and generally, are to be taken into consideration prior to allocation of rights in public assets (including in the communications field) by the relevant governmental authorities to entities considered to be 'concentrated entities'. Being a subsidiary of IDB, we were included in the list of concentrated entities published in December 2014 to which such requirements apply. This may adversely affect the renewal of our licenses and allocation of additional frequencies to us, which may have an adverse effect on our business. See also "Risks Relating to Our Ordinary Shares Recent Legislation in Israel affecting corporate conglomerates, could adversely affect us" below.

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Due to the limited size and high level of regulation of the Israeli market, and the communications market in particular, our being a member of the IDB group of companies may limit our ability to expand our business in the future, form joint ventures and strategic alliances and conduct other strategic transactions with other participants in the Israeli communications market.

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

As of December 31, 2014, Discount Investment Company, or DIC held, directly and indirectly, approximately 41.78% of our outstanding share capital. Pursuant to shareholders agreements among DIC and certain of our minority shareholders, who in the aggregate own approximately 3.39% of our ordinary shares, DIC has been granted the voting rights in respect of those shares. In addition to DIC's shareholdings and such additional voting rights, it has the right to appoint the 20% of our directors that we are required by our license and articles of association to have appointed by Israeli citizens and residents among our founding shareholders. Accordingly, subject to legal limitations, DIC has control (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.

Recent legislation in Israel affecting corporate conglomerates, could adversely affect us.

In December 2013, the Concentration Law was enacted by the Israeli parliament. The law, in material part: (1) imposes limitations on the holdings by a significant corporation that is not in the financial sector in a significant corporation in the financial sector or the holdings of both kinds of corporations under common control and on the possibility of serving as a director in both a significant non-financial corporation and a significant financial corporation; (2) imposes a two layer limitation on the total number of reporting corporations (layers) in pyramidal structure (for existing pyramidal structures of three layers - after a transition period of six years and of four layers – after a transition period of four years); (3) strengthens the corporate governance rules applicable to public companies in Israel, and sets additional limitations on certain transactions in which a controlling shareholder has a personal interest, strengthens the independence requirements of external directors and requires that as of September 2014 and during the said transition period in companies that are third layer and up in a pyramidal structure - the majority of the board of directors be independent, as defined in the Israeli Companies Law, and that the number of external directors be half the number of the company's directors less one (rounded upward) but not less than two; (4) authorizes the Israeli Minister of Finance or bodies authorized by it to set limitations regarding the aggregate credit that may be provided by financial institutions to a corporation or a business group (defined as a controlling shareholder and the corporations under its control); and (5) sets additional procedures including involving the committee of mitigation of concentration designated to take into consideration competitive and control concentration factors prior to any allocation of rights in public assets (including in the communications field) by the relevant governmental authorities. We are a third layer company in the pyramidal structure of the IDB group and were included in the list of concentrated entities published in December 2014 to whom such requirements apply. Accordingly, in September 2014 we changed the composition of our board of directors to accord with the requirements of the Concentration Law, and IDB and DIC have until December 2019 to cause us to cease being a third layer company. IDB and DIC have announced their intention to review possible ways to achieve this goal without having to forfeit control of us, such as by merging with each other or by taking IDB or DIC private. There can be no assurance how or when this would occur, if at all. In addition, the new procedures set in the law in relation to allocation of rights in public assets, could have an adverse effect on our ability to renew our cellular license and receive additional frequencies. The law may also adversely affect our ability to raise debt or other aspects of our business.

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Risks Relating to Operating in Israel

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

Our operations, our network and some of our suppliers are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, Hamas (an Islamist militia and political group in the Gaza Strip) and Hezbollah (an Islamist militia and political group in Lebanon). Any hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations and could make it more difficult for us to raise capital. 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 would damage our ability to provide service, in whole or in part, in the southern or northern part of Israel or otherwise damage our operation and could have an adverse effect on our business, financial condition or results of operations.

More generally, any armed conflicts, terrorist activities or political instability in the region would likely negatively affect business conditions and could harm our results of operations, including following termination of such conflicts, due to a decrease in the number of tourists visiting Israel. Such adverse effects may also occur due to the increasing criticism of Israel in the international community. Since the end of 2010 several countries in the region, including Egypt and Syria, have been experiencing increased political instability, which led to changes in government in some of these countries, the effects of which are currently difficult to assess. In addition, Iran has threatened to attack Israel and is widely suspected to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may affect Israel and us.

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.

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

The Communications Law grants the Prime Minister of Israel the authority, for reasons of state security or public welfare, to order a telecommunications license holder to provide services to security forces, to perform telecommunications activities or to establish a telecommunications facility as may be required for the security forces to carry out their duties. Further, the Israeli Equipment Registration and IDF Mobilization Law, 1987, also permits the registration of engineering equipment and facilities and the taking thereof for the use of the Israel Defense Forces. This law further sets the payment for use and compensation for damages caused to the operator as a result of such taking. Our general license also permits the Israeli Government, during national emergencies or for reasons of national security, to take all necessary actions in order to ensure state security, including taking control of our network, and requires us to cooperate with such actions. If national emergency situations arise in the future and if we are to be subject during such time to any of the foregoing actions, this could adversely affect our ability to operate our business and provide services during such national emergencies and adversely affect our business operations. Our other licenses and Netvision's licenses (excluding our ISP licenses) contain similar restrictions. See also “Item 4. Information on the Company – B. Business Overview – Government Regulations   Our Principal License”, “Other Licenses” and "- Netvision".

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. For example, a merger may not be completed unless at least 50 days have passed from the date that a merger proposal was filed by each merging company with the Israel Registrar of Companies and at least 30 days from the date that the shareholders of both merging companies approved the merger. In addition, a majority of each class of securities of the target company is required to approve a merger. Further, the provisions of our 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. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when the time expires, tax then becomes payable even if no actual disposition of the shares has occurred.

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

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Risks Relating to Our Ordinary Shares

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

Our largest shareholder, DIC, holds approximately 41.78% of our outstanding ordinary shares, as of December 31, 2014. The market price of our ordinary shares could decline as a result of future sales by DIC or other existing shareholders or the perception that these sales could occur. DIC sold approximately 5% of our outstanding shares outside the United States in 2011 and approximately 1.7% of our outstanding shares in 2013. 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 or Regulation S. Any decline in our share price could also make it difficult for us to raise additional capital by selling shares.

In addition, under our 2006 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 the outstanding shares of us. As of December 31, 2014 we had 573,841 shares reserved for issuance upon the exercise of options and in March 2015, additional 2,795,000 shares were reserved for issuance upon the exercise of options, under our 2015 option plan. See "Item 6. Directors, Senior Management and Employment – E. Share Ownership – 2006 Share Incentive Plan".

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

Cellcom Israel Ltd. was incorporated in 1994 in Israel. Our principal executive offices are located at 10 Hagavish Street, Netanya 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.

We hold one of the five general licenses to provide cellular telephone services in Israel. To date, eleven MVNO licenses have been awarded, of which five MVNOs commenced operation. Our cellular license was granted by the Ministry of Communications in 1994 and is valid until 2022.

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.

DIC, a subsidiary of IDB, currently directly and indirectly holds approximately 41.78% of our share capital and the voting rights in respect of an additional approximately 3.39% of our share capital.

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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 leading Israeli ISP and ILD services, for a total consideration of approximately NIS 1.57 billion ($404 million).

Since prior to the merger transaction, the IDB Group controlled both Netvision and us, the merger transaction was approved as a related party transaction under Israeli law. For further details, see Item 7. B "Related Party Transactions".

For further details on Netvision, see "Item 4.B -Business Overview - Netvision".

Since 2012 we have suffered radical adverse changes to our results of operations, following regulatory changes, which also facilitated the entry of additional competitors, a dramatically increased competition and continued price erosion, resulting in a decrease in our EBITDA for 2012, 2013 and 2014 by 19.1%, 23.8% and 4.0% respectively, in comparison to the previous year, despite continued implementation of aggressive efficiency measures in order to mitigate those adverse effects, which led to an annual saving run rate of approximately NIS 850 million, based on comparison of fourth quarter 2014 with fourth quarter 2011 expenses. We intend to continue to implement organizational and personnel changes in our continued effort to mitigate the adverse effects of the increased competition in all areas in which operate. In 2013 and 2014 we entered a strategic network sharing agreement with Pelehpone, which if approved and executed, is expected to result, in a few years during which additional investments will be required, in material operating expense and capital expenditure savings. We cannot guarantee the success of these 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 "Item 4. Information on the Company - B. Business Overview – Competition" for additional details.

Principal Capital Expenditures

Our accrual capital expenditure in 2012, 2013 and 2014 amounted to NIS 537 million, NIS 384 million and NIS 487 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and intangible assets, such as spectrum licenses, rights of use of communications lines, UMTS networks' enhancement and expansion and development of new products and services during a given period.

B. BUSINESS OVERVIEW

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, 2014. Upon launch of our services in 1994, we offered significantly lower prices for cellular communications services than the incumbent provider and transformed the nature of cellular telephone usage in Israel, turning it into a mass market consumption item. We surpassed the incumbent cellular operator and became the market leader in terms of number of subscribers in 1998 and, despite the entry of additional competitors, we have continued since then to have the highest number of subscribers. As of December 31, 2014, we provided services to approximately 2.967 million subscribers in Israel with an estimated market share of 29%. Our closest competitors – Partner and Pelephone - had estimated market shares of 28% and 25.5%, respectively. Hot Mobile was estimated to have a market share of 9.3%, Golan was estimated to have a market share of 6.1% and the MVNOs together, were estimated to have a market share of 2.1%. In the year ended December 31, 2014, we generated revenues of NIS 4,570 million ($1,175 million), EBITDA of NIS 1,282 million ($330 million), and operating income of NIS 662 million ($170 million). See note 2 to the table in “Item 3. Key Information – A. Selected Financial Data” for a definition of EBITDA. Since 2012 our results of operations were adversely affected by the increasing competition which led to accelerated price erosion and increased churn rate. We estimate that the intensified competition will continue to adversely affect our results in the future. See "Item 5. Operating and Financial Review and Prospects. – A. Operating Results – Overview –General ". We sell our various services on a stand-alone basis or bundled with certain other services offered by Netvision and us.

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We offer a broad range of cellular services through our 2G and 3G cellular networks covering substantially all of the populated territory of Israel and our recently launched 4G network. These services include basic and advanced cellular telephone services, text and multimedia messaging services and advanced cellular content and data services. We also offer international roaming services in 179 countries as of December 31, 2014. We offer our subscribers a wide selection of handsets from various leading global manufacturers, as well as extended warranty and repair services on most handsets we offer. We also offer landline transmission and data services to business customers and telecommunications operators and, since July 2006, we offer landline telephony services. Since December 2014 we also offer OTT TV services.

Through our wholly owned subsidiary Netvision, we offer ISP, ILD, landline telephony and teleconferencing services. Additional services include cloud services and data protection products solutions based on products and services offered by us and by third party vendors. For further details on Netvision's business and operations, see "- Netvision" below. The following table presents our number of cellular subscribers and revenues for each of the last five years:

	Year Ended December 31,				
	2010	2011	2012	2013	2014
Cellular subscribers (end of period) (in thousands)(1)	3,394	3,349	3,199	3,092	2,967
Revenues (in NIS millions)	6,662	6,506	5,938	4,927	4,570

(1) Subscriber data refers to active cellular subscribers. We use a six-month method of calculating our cellular subscriber base, which means that we deduct subscribers from our cellular subscriber base after six months of no revenue generation and activity on our network by or in relation to the post-paid subscriber, no revenue generating calls or SMS for pre-paid subscriber 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. During the fourth quarter of 2011, we removed approximately 52,000 subscribers from our subscribers base, which included subscribers using our TDMA network who had not requested a transfer to our other networks following the shutdown of our TDMA network as of December 31, 2011, and subscribers who ceased using our services following a change to our policy which previously allowed subscribers to change from post to prepaid subscription as a result of the reduction of Early Termination Fees in the cellular market in early 2011. These changes affected other key performance indicators. In the fourth quarter of 2012, we removed approximately 138,000 M2M subscribers from our subscriber base, following the addition of the above revenue generation criterion for M2M subscribers. This change had an immaterial effect on our ARPU for 2012. In the fourth quarter of 2013 we removed approximately 64,000 subscribers from our subscribers 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 no revenue generating calls or SMS. Following each of these changes, we have not restated prior subscriber data to conform to such changes.

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Business Strategy

Our goal is to strengthen our position as a leading Israeli telecommunications group. The principal elements of our business strategy are as follows:

- Offering our customers comprehensive telecommunications solutions. We offer our customers a wide range of mobile and wireline telecommunications services. We focus our offerings on bundles of services, as they enhance customer loyalty to us and once the wholesale market, which was formally launched in February 2015, is effective, we intend to make a triple (internet infrastructure, landline telephony and TV services) offering as well. We also offer a one stop shop for the group's portfolio of services, in both customer service and sales. In addition, we intend to continue to leverage our leading position and large market share in those businesses for cross-sales and the offering of new services which are found to be synergetic to those businesses, such as our recently launched OTT TV services, in order to increase our overall revenues and market share.

- Growing in wireline services. We intend to continue to expand our landline business with both private and business customers. For private customers, we provide ISP, home telephony services (via Bezeq's and Hot's infrastructure), OTT TV services as well as ILD services. An effective wholesale landline services, will enhance our ability to offer additional services and compete with the incumbents, Bezeq and Hot, as well as other competitors in these markets. For details of the wholesale market see also "Item 4. Information on the Company – Government Regulations – Landline". For business customers, we provide a wide range of telecommunications services, including ISP, ILD, landline telephony services, as well as hosting and data security services. These, combined with approximately 1,750 kilometer inland fiber-optic network, our microwave infrastructure, and Netvision's high penetration in business parks and industrial centers, provide us with the ability to selectively offer cost-efficient landline telecommunications solutions to business customers and integrated offerings of landline and cellular services.

- Offer new services that will complete our offering as a telecommunications group and are synergetic to our core businesses. We continue to develop new complementary businesses that will leverage our varied capacities and that are synergetic to our core business. Our recently launched OTT TV solution allows us to offer a low cost attractive alternative to the traditional cable and satellite television services offered in Israel by Hot and D.B.S Satellite Services (1998) Ltd., or Yes (a subsidiary of Bezeq).

- Optimization of cost structure. We continue our efforts to reduce costs and improve our efficiency. In 2014 we continued taking other aggressive efficiency measures, through adjustments to the existing head count, a reduction in overhead expenses and improvement of work processes. We plan to continue streamlining our costs in 2015, including organizational and personnel changes, and also through the network sharing agreement we entered with Pelephone, should it receive the necessary regulatory approvals.

Cellular Services and Products

As of December 31, 2014, we provided cellular communications services to approximately 2.967 million subscribers, including basic cellular telephony services, text and multimedia messaging, data and other value-added services as well as handset sales. Not all services are supported by all handsets or by all of our networks.

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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, such as ISP, landline, ILD and OTT TV services for home and IP switchboard, ISP, landline and ILD services for the office. We offer two methods of payment: pre-paid and post-paid. Pre-paid services are offered to subscribers who pay for our services prior to obtaining them, usually by purchasing our “Talkman” pre-paid cards or “virtual” Talkman cards. Post-paid services are offered to subscribers who are willing to pay for our services through banking and credit arrangements, such as credit cards and direct debits. Price erosion and the marketing of unlimited packages, has 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.

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 "Unlimited Packages". 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, laptops and tablets. We provide our customers with a variety of "internet surfing 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” into our network. As of December 31, 2014, we had commercial roaming relationships with 572 operators in 179 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, 2014, we had 3G roaming arrangements with 340 of these operators, in 114 countries, (some 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 content services such as music downloads and "Cellcom TV" application. SMS is included in our Unlimited Packages. 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 IP Centrex services, multi SMS, M2M, work force management and vehicles management applications.

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Handsets

We sell a wide selection of handsets (which for purposes of this report may include other types of communicationsend-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, however in most cases, handsets are to be paid in 36 monthly installments. We offer a variety of handsets from world-leading brands such as Apple, LG, Nokia, Samsung, Sony, HTC, ZTE and Alcatel. The vast majority of our handset sales in 2014 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. We offer our subscribers an extended handset warranty as well as repair services for most handsets, in approximately 30 locations, including through our wholly owned dealer, as well as by dispatch service. See also "Customer Care" below.

We also sell modems, tablets and laptops to promote our data services.

Samsung International Co. Ltd. provides us Samsung products and maintenance and repair services for such products, under terms, including price of products, agreed between us and Samsung from time to time.

In March 2012 and May 2013, we entered into agreements with Apple Sales International for the purchase and distribution of iPad and iPhone products, respectively, in Israel. Under the terms of the agreements, we have committed to purchase a minimum quantity of iPad and iPhone products, respectively, over a period of three years, which have and is expected to continue to represent a significant portion of our expected total tablets and cellular handsets purchase amounts, respectively, over that period. The total amount of the iPad and iPhone products' purchases will depend on their respective purchase price at the time of purchase.

Landline services

In addition to our cellular services, we provide landline telephony, transmission and data services, using our approximately 1,750 kilometers of inland fiber-optic infrastructure and complementary microwave links. We have offered transmission and data services since 2001, landline telephone service since July 2006, and advanced, voice and data landline services since 2008, both to selected business customers. In addition, Netvision also offers landline services to both private and business customers, focusing on the private sector. For further details, please see "-Netvision" below.

For possible effects an effective wireline wholesale market and the provision of broadband infrastructure services by IBC may have on our landline business, see "Item 4. Information on the Company –Competition - Wireline".

As of December 2014, we are also offering OTT-TV services, branded 'Cellcom tv' to private customers and using Netvision's systems. 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 based on the Israeli Digital terrestrial television (DTT) broadcasting, Video on Demand library subscription (SVoD) that can be also accessed by smartphones and tablets (TV anywhere), live and catch up sports application, access to internet video content from selected internet sites, music streaming service and additional advanced features such as personal video recorder, VoD playlist channels and connection to social networks, for a highly competitive price. Our VoD services offer international and local content from top content suppliers.

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In 2012, Netvision entered an agreement with ADB, for the purchase and distribution of set-top boxes and ancillary products and services for our OTT TV services.

In 2013, Netvision entered an agreement with VU, a leading international supplier of multiplatform video services and solutions, for the supply of international video content and content operation and management services. Under its agreement with VU, Netvision has committed to pay minimum amounts for such content and services. The Agreement is valid until the end of 2017, and may be terminated by Netvision at the end of 2016 subject to a termination payment; and thereafter is renewable for additional periods of one year each, unless terminated by either party, subject to prior notice.

In 2014, Netvision entered an agreement with RGE, for the provision of sports application. In 2015, Netvision entered an agreement with its subsidiary - Sports Channel Ltd. for content operation services. Under these agreements, Netvision has committed to pay minimum amounts for such content and services.

Network and Technology

General

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

Our “four generation” LTE, or Long Term Evolution technology, was launched in August 2014, offers a high speed internet surfing with current data rates of up to 37.5 Mbps on the downlink path and up to 12.5 Mbps on the uplink path and supports LTE advanced (4.5G) capabilities, such as carrier aggregation which will be available subject to regulatory approval and once additional frequencies (other than the currently used 1800MHz frequencies) are available. Our LTE network is already operating in wide areas of Israel with hundreds of operational sites and in 2015 we intend to continue the deployment of this network, although at a slower deployment pace than in 2014, and use more spectrum in the 1800 band to expand the high speed internet surfing rate.

Our “third generation” UMTS/HSPA+, or high-speed downlink packet data access, technology, offers full interactive multimedia capabilities with current data rates of up to 42 Mbps on the downlink path and up to 4 Mbps on the uplink path. In 2015 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 new 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 “second generation” GSM/GPRS/EDGE 1800MHz network allows for voice calls, data transmission and multimedia services, like video streaming and video live (using the EDGE technology), although at slower speeds than our LTE and UMTS/HSPA+ networks. 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 an adequate fallback and capacity relief for our LTE and UMTS/HSPA+ networks. Most of our traffic uses the UMTS/HSPA+ network.

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Our transmission network is comprised of approximately 1,750 kilometers of inland advanced fiber-optic cables that, together with our microwave infrastructure, enable us to provide our customers with telephony and high speed and high quality transmission and data services. Our transmission network is strategically deployed in order to cover the major portion of Israel’s business parks and permits us to provide our own backhaul services while reducing our need to lease capacity from Bezeq, the incumbent landline operator in Israel.

Our NGN system by NSNallows the provision of advanced voice and data services to our landline customers.

Netvision's platform by LM Ericsson, allows the provision of our OTT TV services, together with the Israeli DTT infrastructure.

Network and cell sites sharing agreements

In December 2013, we entered into an Indefeasible Right of Use ("IRU") agreement with Golan regarding our 2G and 3G radio networks, which will replace Golan's current national roaming agreement with us. Golan will continue to operate its own core network. In May 2014, subsequent to the publication of a network sharing policy by the Ministry of Communications, we entered into a network sharing agreement with Golan, for the construction and operation of a shared 4G radio network. Both Golan and we will provide the required frequencies for the operation of the 4G radio network and each of us will purchase and operate its own core network.

Both agreements were updated in September 2014, following the publication of additional requirements regarding network sharing by the Ministry of communications, and are generally for a period of at least 10 years. The 4G agreement includes stipulations as to ownership and mutual IRU in the 4G radio equipment as well as the establishment of a Joint Venture for the joint operation of the 4G radio network. Upon termination of the 4G sharing agreement, each party may purchase IRU rights in the passive infrastructure of the other party.

Effectiveness of the agreements is subject to the approval of the Ministry of Communications and the Israeli Antitrust Commissioner to all the agreements. We can provide no assurance that such approvals will be granted. We expect - if these agreements will be approved - our revenues from Golan to be at annual levels similar to those in 2013 and 2014, for the duration of the agreements term.

Further in September 2014, we entered into a co-operation agreement regarding maintenance services for passive elements of cell sites with Pelephone, including unifying passive elements and streamlining costs, through a common contractor. The contractor to be selected by an RFP process, will enter a separate agreement with each of us and Pelephone, generally for a period of at least 5 years. We expect, if this agreement is approved and if we and Pelephone enter agreements with such contractor, that the co-operation will gradually produce substantial savings in our expenses for rental and maintenance of cell sites, for the duration of the agreements' term, following an increase in our investments for the unification of cell sites. The agreement is subject to regulatory approvals. We can provide no assurance that such approval will be granted.

For risks relating to these agreements see "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We operate in a heavily regulated industry, which can harm our results of operations. In recent years, regulation in Israel has materially adversely affected our results ", " - We face intense competition in all aspects of our business" and "We may be adversely affected by the significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business." For additional details regarding network sharing regulation see "Government Regulations – Network Sharing" below.

Infrastructure

We have built an extensive, durable and advanced cellular network system, enabling us to offer high-quality services to substantially the entire Israeli populated territory. We seek to satisfy quality standards that are important to our subscribers, such as high voice quality, high data rate packet sessions, low "blocked call" rate (calls that fail because access to the network is not possible due to insufficient network resources), low "dropped call" rate (calls that are involuntarily terminated) and deep indoor coverage. Therefore, we have made substantial capital expenditures and expect to continue to make substantial capital expenditures on our network system, specifically in the construction of our LTE network.

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

In recent years we have enhanced and expanded both our UMTS/HSPA+ network and our GSM/GPRS/EDGE network, primarily in urban areas, by adding infrastructure to improve outdoor and indoor coverage including through UMTS/HSPA 850 MHz sites deployed through substantially all of the populated areas of Israel. In 2015 we intend to continue to expand our LTE network coverage.

We launched our SDH transmission network in 1999. It is based on Alcatel Lucent and ECI Telecom technology and covers substantially all of the populated areas in Israel, and is maintained by Alcatel Lucent and ECI Telecom. We launched our Carrier Ethernet network in 2010, based on Alcatel Lucent technology. It covers substantially all of the populated areas in Israel and is maintained by Alcatel Lucent. In 2015 we intend to launch an MBH network, by Cisco Systems, Inc., or Cisco.

Pursuant to the requirements of our license (as well as the licenses of the other 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 partial duplicate back up centers in Kiryat Gat and Ramle, located approximately 80 and 40 kilometers, respectively, south of Netanya and a disaster recovery plan, or DRP, for all our engineering systems.

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In 2011, Netvision entered an agreement with LM Ericsson, for the purchase of our OTT TV services system and ancillary products and services. Netvision has 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.

Cellular Network design

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

We have a DRP for our engineering systems, aimed at increasing our network's survivability in case of damage to any of its elements. The DRP also provides our network with additional advantages including increased capacity and advanced qualities.

Our primary objective going forward is to continue deploying our LTE network while allocating a smaller amount of our 1800MGz frequencies to our 2G network, through advanced and modern equipment and software features, and to continue to support the increasing demand for data traffic of our high speed UMTS/HSPA+ network. At the same time we intend to continue to perform extensive optimization work to provide our subscribers with maximum capability to support video and other broad-bandwidth content. See "Item 3. Risk Factors – We may be adversely affected by significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business".

Cellular Network performance

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

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

Spectrum allocation

Spectrum availability in Israel is limited and is allocated by the Ministry of Communications through a licensing process. We have been allocated 2x10 MHz in the 850 MHz frequency band previously used by our TDMA network and currently by our UMTS/HSPA 850 MHz base stations, 2x17 MHz in the 1800 MHz frequency band 5 MHz of which are used by our LTE network (according to an approval provided to us by the Ministry of Communications, under certain conditions, even before the completion of the 4G frequencies tender mentioned below) and the remaining band is used by our GSM/GPRS/EDGE network and 2 x 10 MHz 1900 - 2200 MHz frequency band used by our UMTS system. We believe that our available spectrum is sufficient for our current needs.

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In January 2015, we were awarded additional 1800 3MHz by the Israeli Ministry of Communications, in an 1800MHz frequencies tender, for 4G technologies (such as LTE, LTE Advanced), out of the 8 5MHz bands available in the tender (excluding our band which was limited to3MHz given our previous possession of 1800MHz frequencies, a portion of which we would have to redirect for our 4G network), for NIS 6.5 million per 1MHz. 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.

Participation in the tender was open for all current MNOs, MVNOs and other entities meeting certain condition and bands were awarded to the highest bidders with new and small operators (Marathon – a new operator, Hot Telecom and Golan) eligible for up to 50% discount, 10% discount for each 1% addition to their market share, obtained over the next 5 years. Pelephone was awarded 15MHz and each of Partner, Golan, Hot Mobile and Marathon was awarded 5MHZ, for NIS 6.4 – 6.9 million per 1MHz. Should our 4G network sharing agreement with Golan be approved, the shared 4G network will make use of the 5MHz Golan was awarded.

Cell site constructionand licensing

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

Suppliers

In April 2014 we entered a framework agreement with NSN Israel, of Nokia Solutions and 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 will also govern the purchase and services provided under our previous agreement with NSN, in relation to our GSM/GPRS and EDGE networks, UMTS core system and a UMTS/HSPA radio access network and related products and services. We have an option to purchase maintenance services on an annual basis for 15 years from final acceptance of the initial phase of our LTE network.

We entered into an agreement with LM Ericsson in September 2005 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.

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We use Telcordia's (which was acquired by Ericsson) intelligent platform, or "IN," to provide services to our GSM/GPRS/EDGE, UMTS and LTE networks, allowing us, at minimal cost, to internally develop sophisticated services with a short time-to-market that are customized to local market requirements. Our IN platform supports all relevant IN protocols, which allows us to provide (subject to applicable roaming agreements) advanced roaming services, including Virtual Home Environment, abbreviated dialing, unified access to voice mail, VPN, local number format from subscribers' phone book and call screening.

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

Transmission network

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

Our optical transmission network is deployed from Nahariya in the north to Beer Sheva in the south and Afula and Jerusalem in the east, consisting of approximately 1,750 kilometers. The fiber-optic network reaches most of the business parks in the country and is monitored by a fault-management system that performs real-time monitoring in order to enable us to provide our subscribers with high quality service. In order to efficiently complete our transmission network's coverage to substantially the entire country, we use a microwave network as a complementary solution in those areas that are not served by our fiber-optic network. As of December 31, 2014, we had approximately 2,830 microwave links to both our cell sites and subscribers.

In 2014 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.

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

In November 2009, we entered into an agreement with Alcatel Lucent for the purchase of our Carrier Ethernet network. We also agreed to purchase from Alcatel Lucent at least 51% of the equipment and services that we purchase for such network until the lapse of 7 years from final acceptance (until February 2017). We have an option to purchase maintenance services until 2022.

In February 2015 we entered 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 a termination fee. Thereafter we have an option to purchase maintenance services for a term of 8 years (until 2027).

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To supplement our transmission network, we lease a limited amount of transmission capacity from Bezeq, the incumbent landline operator. Netvision owns a small transmission network and leases most of the transmission capacity it requires from us, Bezeq, Hot and Partner.

Information technology

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

In July 2010, we entered into an agreement with Amdocs (Israel) Limited, or Amdocs, for the provision of operation, maintenance, management and development services for our billing and customer care system until December 2014. In December 2013, we entered an additional agreement with Amdocs for the provision of such services in relation to all our and Netvision's existing billing and customer care systems (and any replacement to such systems, if supplied by Amdocs), effective February 2014 (for systems not included in the previous agreement) and January 2015 (for systems included in the previous agreement) until February 2024. We may terminate the agreement after August 2016, subject to a termination payment (decreasing over time) until February 2020. In December 2013, we entered into an additional agreement with Amdocs for the development of a new version for our billing system, which will serve Netvision as well. In March 2014, we entered into an additional agreement with Amdocs for the provision of a new CRM system that shall replace our and Netvision's current CRM systems and will serve both companies. Under the agreement, we are obligated to purchase maintenance services for one year from the launch of the system and have an option to purchase maintenance services for seven years thereafter.

Netvision currently uses a billing system supported internally and by Intec and a customer care system provided by PeopleSoft and supported by Amdocs under the agreement described above.

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

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

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

We (and Netvision as of July 2013) use ERP solutions provided by SAP, supported by Rimini Street Inc, or Rimini. We use a data warehouse based on an Oracle data base system and various data mining tools, ETL by Informatica and reports generated by Cognos. The data warehouse contains data on our subscribers' usage and allows for various analytical segmentation of the data.

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

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Sales and Marketing

Sales

As part of our strategy to fully penetrate every part of the Israeli market, we try to make the purchase of our services as easy and as accessible as possible, while making our sales lineup more cost efficient. Our efforts to adjust our sales operations to meet current market conditions include closing and uniting points of sale and eliminating duplicate points of sale or transferring to more cost effective channels. 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. 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 and other customer-facing staff go through extensive training prior to commencing their work. Our distribution and sales efforts for subscribers are conducted primarily through four channels:

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

We operate directly, using our sales force and service personnel, at approximately 30 physical points of sale and service (having closed another point of sale and service in 2014), located in central and other frequently visited locations to provide our subscribers with easy and convenient access to our products and services. In 2014, we reduced the space of several additional points of sale, and we may continue to do so in 2015.

We also distribute our products and services indirectly through a chain of dozens of dealers (including our own wholly owned dealer, Dynamica) who operate at approximately 150 points of sale throughout Israel. Our dealers are compensated for each sale based on qualitative and quantitative measures. We closely monitor the quality of service provided to our subscribers by our dealers. In our efforts to penetrate certain sectors of our potential subscriber base, we select dealers with proven expertise in marketing to such sectors.

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

Account managers. Our direct sales force for our business customers maintains regular contact with our mid-sized and large accounts, focusing on sales of cellular and wireline services, customer retention and tailor-made solutions for the specific needs of such customers. 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. Sales to larger business customers or governmental and local authorities sometimes involve participation in the customer's tender process.

On line sales. We offer our customers the ability to purchase our products and services through our internet site and our smartphone application and invest efforts in directing our customers toward self-service channels. We have recently established a new internet site for the marketing and sales our OTT TV service.

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Marketing

Our marketing strategy emphasizes our position as a market leader, our value for money to families and small businesses and our provision of a comprehensive solution for our customers' communication needs, by offering services bundles, which combine a package of voice and SMS usage, cellular data, ISP, landline and ILD services for families and following our OTT TV service a package of voice and SMS usage, cellular data, ILD services and OTT TV service, and bundles offerings for businesses which combine a package of voice and SMS usage, cellular data, extended repair services, IP switchboard, ISP, landline and ILD services for the office for small and mid-sized businesses. We believe the provision of bundles 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. Alongside our focus on packages for a fixed sum, we have substantially reduced the number of calling plans available to our customers, thus reducing our back office operation.

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; and with regards to the cellular provider - selection of handsets and their compatibility with their needs. Our marketing activities take into consideration these parameters and we invest efforts to preserve our subscriber base 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 wireline products and services according to customer needs, usage trends and profitability, mostly by using advanced CRM 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 campaign has been very successful and acclaimed among the Israeli public. In 2014, we also sponsored a memorial concert for one Israel's most popular and beloved singers. We believe that the success and public response that the campaigns and concert have generated is the result of the relevance of their messages to our customers, indicating the success of our focus and differentiation from our competitors.

Cellcom was ranked by Globes as the leading and strongest brand of Israel’s cellular market in 2014 for the fourth year in a row. We believe that our strong brand recognition gives us the high level of market exposure required to help us achieve our business objectives.

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Customer Care

Our customer service unit is our main channel for preserving the long-term relationship with our subscribers. We focus on customer retention through the provision of quality service and customer care. In order to achieve this goal, we systematically monitor and analyze our subscribers' preferences, characteristics and trends by developing and analyzing sophisticated databases. In addition, subscribers are encouraged to subscribe to additional value-added services, mobile data and content services as well other communications services such as ISP, landline and ILD services and our private customers – OTT TV services as well, in order to enhance customer satisfaction and increase ARPU, with a specific focus on bundles of services. We invest large resources in the quality of our service to our customers. Our customer care representatives receive extensive training before they begin providing service and thereafter regularly undergo training and review of their performance. We provide our customer care representatives with a continually updated database, thus shortening the interaction time required to satisfy the customer's needs and preventing human errors and closely monitor the service provided by them, in order to assure its quality. 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 walk-in centers 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.

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

Call centers. In order to provide quick and efficient responses to the different needs of our various subscribers, our call-center services are divided into several sub-centers: general services; technical services; billing; sales; international roaming; and data and internet. We are constantly reviewing the effectiveness of our service and in 2014, we commenced operating a multi-function call center providing all our services. If found to facilitate both effectiveness and cost efficiency, we may establish additional such call centers in the future. The call center services are provided in four languages: Hebrew, Arabic, English and Russian. We regularly monitor the performance of our call centers. We currently operate call centers in nine locations throughout Israel, four of which are outsourced. In 2013 we witnessed a 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 offering simple price plans and promoting our self-service channels.

Walk-in centers. As of December 31, 2014, we independently operated approximately 30 service and sales centers, having closed another point of sale and service in 2014, with approximately 150 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 provide a walk-in contact channel and offer the entire spectrum of products and services that we provide to our subscribers and potential subscribers (the majority of which are provided in our dealers' sale and service points as well), including handset sales, accessories sales (by our wholly owned dealer Dynamica), upgrades and other services, such as bill payment, pricing plan changes and subscriptions to new services. Our independently operated walk-in centers also provide customer service for our OTT TV services. These stores are mostly located in central locations, such as popular shopping malls. Our walk-in centers also serve as a contact point for our subscribers who need repair services. Our subscribers deposit their handsets for repair in our walk-in centers and receive the repaired handset after two business days in the same center or at a location of their choice by a courier. The repair services are conducted in a central lab.

Self-services. We provide our subscribers and potential subscribers with various self-service channels, such as interactive voice response, or IVR, web-based services, automatic and live chat and mobile phone application, where they can receive general and specific information, including pricing plans, account balance, information regarding our various services and products and trouble shooting and handset-operation. We invest efforts in directing our customers to use self-service channels.

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

Customer service for our OTT TV services and Netvision services is provided in our independently operated service centers and through technicians providing services at the customers' homes.

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

We constantly invest time and efforts making our services compatible to persons with disabilities. We provide customers with disabilities convenient accessibility to our premises and adapted products and services, including sign language customer care at our walk-in services, free dispatch services, and the option to receive sales in the customer's home. We work closely with Accessibility Israel, a leading Israeli non-profit organization advancing accessibility for persons with disabilities in Israel, and train our representatives to provide accessible service to all our customers.

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 is valid until June 2017 and either party may terminate it previously, by advanced written notice to the other party.

Competition

Communications groups and structural separation

The Israeli telecommunications market is currently dominated by four communications groups: Bezeq, Hot, Partner-012 Smile and Cellcom–Netvision. Each of the Bezeq and Hot groups are subject to certain structural separation requirements in relation to sale of bundles of services by Hot and Bezeq and their respective subsidiaries, as a result of being the incumbent and monopoly in their respective core business – landline and multichannel television services. In addition to certain relaxation of the structural separation imposed on the Bezeq group as of 2010, allowing it to offer bundles of services with its subsidiaries, in March 2014, the Israeli Antitrust Commissionaire published the terms under which it is willing to approve a merger between Bezeq and Yes Bezeq's subsidiary providing multichannel pay-TV. Although the Hot group is also subject to structural separation limitations between its multi-channel television, ISP, cellular and landline services, it was allowed to offer a bundle of landline, multichannel television and internet infrastructure services and under certain conditions ISP services as well, and as of 2011, Hot and Hot Mobile are also allowed to sell and market each other's services and exchange information. Bundle offerings have accelerated and are expected to accelerate competition and price erosion in each of the services included, especially in those services which are not the core services of the Bezeq and Hot groups. For possible annulment of the structural limitations following the execution of a wholesale market of landline services or a proposed change to the ILD services regulation, or approval of mergers in the Bezeq and Hot groups, see "- Wireline" below, "-Government Regulations – Landline" and "Netvision - ISP Business - Competition", "Netvision - Telephony

Business - Competition".

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Cellular

There is intense competition in all aspects of the cellular communications market in Israel, which has been intensifying further since 2012, with a penetration rate (the ratio of cellular subscribers to the Israeli population) of approximately 124%, representing approximately 10.2 million cellular subscribers at December 31, 2014, and an average annual churn rate in Israel in 2014 is estimated to be 44%, 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 nine other cellular communications operators: four MNOs (Partner, Pelephone, Hot Mobile and Golan) and five MVNOs (Rami Levy Hashikma Communications Marketing Ltd., or Rami Levy, Home Cellular Ltd., or Home Cellular, Alon Cellular Ltd., or Alon Cellular, Azi Communications Ltd., or Azi and Cellact Communications Ltd., or Cellact). Marathon 018 Ltd., or Marathon, is expected to be awarded the 6th MNO license, after winning frequencies in the recent 4G frequencies tender.

Our estimated market share based on number of subscribers was approximately 29% as of December 31, 2014. Estimated market shares at such time of Partner, Pelephone, Hot Mobile and Golan were estimated to be approximately 28%, 25.5%, 9.3% and 6.1%, respectively and the MVNOs' collective market share was estimated to be 2.1%.

Hot Mobile and Golan commenced their UMTS operation in May 2012. Rami Levy, Home Cellular, Alon Cellular Azi and Cellact, all mobile virtual network operators, commenced operations in December 2011, April 2012 , May 2012, July 2013 and December 2013, respectively. An additional seven entities previously received MVNO licenses but to date have not commenced operating. We do not know if and when the other MVNO licensees will commence operations.

Partner started operations in 1998 and is controlled by Scailex, an Israeli company listed on the TASE, and by its affiliate Suny, the official importer of Samsung cellular phones to Israel (both indirectly controlled by Israeli businessman Mr. Ilan Ben-Dov) and 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 Telelcom, an ISP and ILD operator, now also serving as Partner's cellular low cost brand dealer.

Pelephone is a wholly-owned subsidiary of Bezeq, the incumbent landline operator 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 Internet Gold Golden Lines Ltd., or Internet Gold. Both B Communications and Internet Gold form part of the Eurocom Communications Group, or Eurocom, controlled by the Israeli businessman Shaul Alovich.

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Hot Mobile (previously named Mirs Communications Ltd.) had its license upgraded from push-to-talk to a cellular license in February 2001. In mid-2012 it began its UMTS operation. Hot Mobile is owned by Hot Telecom, or Hot, which is owned by the French businessman Mr. Patrick Derhy. Hot provides multichannel pay-TV services and Internet, data and landline telephony services.

Golan is owned by Xavier Niel, founder and controlling shareholder of the French telecom company Iliad - Free, Patrick and Gerard Pariente, founders and former owners of Naf Naf, a European fashion brand and Michael Golan, the CEO of Golan and former CEO of the French telecom company Iliad – Free. Golan began to operate in mid-2012.

Rami Levy is a subsidiary of a major Israeli discount supermarket chain. Home Cellular is a subsidiary of a leading 'do it yourself' stores chain. Alon Cellular is owned by Alon Holdings which also controls a leading retail and gas station chain. Azi is owned by Telzar, an ILD operator. Cellact is owned by Cellact Ltd., a content provider.

The competition in the cellular communications market intensified following the entry of additional cellular operators to the market, specifically the launch of two new UMTS operations by Hot Mobile and Golan, without having to first invest in building their own network with significantly lower tariffs than market level at that time for private customers . . This has led to a material increase in churn rate and accelerated and continuous price erosion and a material decrease in revenues and profitability for us. In 2015, Hot Telecom and Golan, respectively, began targeting the business sector, offering lower tariffs than market level, leading to increased competition and price erosion in that sector as well.

Handsets

In the handsets market, we compete with numerous vendors, chain stores and importers' stores. Recent regulatory decisions alleviating the regulatory requirements on the import to and sale of handsets in Israel, coupled with regulatory decisions preventing cellular operators from linking handsets sale and cellular services, led to the entry of additional competitors into the market, significantly increased competition and decreased sales for us. See "Item 4. Information on The Company - Government Regulations – Tariff Supervision" for additional details. That, coupled with the growing change in the business market where corporations no longer purchase cellular services for their employees from a designated operator but rather allow each employee to purchase his or her own device and obtain cellular services from their operator of choice, known as the "bring your own device" phenomenon, and the recently announced cooperation of Golan (that doesn't sell handsets) with Suny for the sale of discounted Samsung handsets for Golan's business customers may further increase the competition in this market.

Wireline

Local landline telephony services are currently provided by two major providers. Bezeq, the incumbent, with approximately 2.2 million lines and Hot, with approximately 681 thousand subscribers (both at the end of September 2014). Bezeq and Hot groups are the only groups owning full landline infrastructure in Israel and offering internet infrastructure services to both ISPs and end-users. Other players include us, Netvision, Partner, Smile Telecom and Bezeq International.

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

Multichannel pay-TV services are dominated by Hot (the incumbent TV provider and monopoly in this filed) and YES, (a subsidiary of Bezeq). The multichannel pay-TV market is also highly penetrated with levels above those of most developed economies. We have recently entered this market, using an hybrid OTT-DTT television service. DTT broadcasting may be used by additional players as well, to be bundled with additional IPTV or Over the Top (OTT) channels, as we do. Partner, Rami Levy and Golan also announced they are developing such a solution and are planning to enter this market. In March and September 2014, the Israeli Antitrust Commissioner, aiming to facilitate the entry of new competitors to the TV market by reducing entry barriers, published the following requirements: (1) Bezeq to generally not bill ISPs for TV related internet infrastructure services, annul and not engage in any non-original production exclusivity arrangements; and (2) both Bezeq/ Yes and Hot to allow new TV service providers to purchase certain original production of Bezeq for two years from the approval of the merger. Those requirements will apply to Bezeq/Yes as preconditions for the completion of their merger.For details of the ISP and ILD markets, see "Netvision - ISP Business" and "Netvision - Telephony Business" below.

The landline wholesale market was formally launched in Israel in February 2015. The increased offerings of bundles of services increase our dependence on the formation of an effective landline wholesale market, to allow us to include broadband internet infrastructure and landline telephony to the private sector in our offer and be competitive. For the formation of a wholesale landline market in Israel see "-Government Regulations – Landline" below".

While an effective wholesale wireline market will enhance our ability (including through Netvision) to compete and extend our service offering, the recommendations regarding the structural separation and Bezeq's tariffs supervision, which were liaised together by the Ministry of Communications' policy, may have a material adverse effect on our competitive capabilities and results of operation. In addition, setting low prices for landline wholesale market services may increase the competition in the landline market as it will facilitate the entrance of new competitors to the landline market and may trigger further escalation in the competition in other markets in which we operate. The effectiveness of the wholesale landline services and our ability to offer these services is dependent on the manner of implementation of the wholesale services, which require the cooperation of the infrastructure owners in the execution of the regulator's decisions and in relation to issues and processes not regulated.

For further details see below in this Item 4. B. under "- Netvision". See also "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business".

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:

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- acquiring Netvision to create a competitive communications group and offering comprehensive bundles of mobile and wireline solutions and future triple offerings, once a wholesale market is effectively available;

- investing in our network to ensure our ability to offer quality and advanced cellular and wireline services, including in our 4G network which is also supporting LTE advanced technology and providing our customers with the most advanced services;

- entering into network and cell site sharing agreements with Pelephone and Golan, which, if approved and executed, will result in substantial operating expense and capital expenditure savings to us;

- identifying new opportunities to maximize our advantages as a cellular operator and as a communications group, such as our recently launched television services over the internet and the wider offering of landline infrastructure and telephony services to the private sector if an effective wholesale market is established;

- investing significant resources in customer service and retention, as well as supporting information technology systems;

- 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; and

- offering attractive pricing plans to subscribers, including bundles of services and cross-sale and up-sale of our and Netvision's services.

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.”

Intellectual Property

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

We have registered approximately 40 domain names and approximately 100 trademarks and trademarks applications, the most important of which are the star design, “Cellcom”, “Talkman”, “Cellcom Volume” and "Cellcom tv". Netvision has registered approximately 120 domain names and approximately 30 trademarks, the most important of which are "Netvision" and "013 Netvision". We are also the proprietor of a few registered patents.

Government Regulations

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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 Israeli Ministry of Communications pursuant to the Communications Law. We are required by law to have a general license in order to provide cellular communications services in Israel. The Ministry of Communications has broad supervisory powers in connection with the operations of license holders and is authorized, among other things, to impose financial penalties for violations of the Communications Law, the regulations and our licenses. For a description of the principal licenses held by Netvision see below in this Item 4.B under the caption "- Netvision".

Our principal license

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

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

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

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- 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 to transfer any of our means of control if as a result of such transfer, control over our company will be transferred from one party to another, without the prior approval of the Ministry of Communications. For the purpose of the license, "control" is defined as the direct or indirect ability to direct our operations whether this ability arises from our articles of association, from written or oral agreement or from holding any means of control or otherwise, other than from holding the position of director or officer;

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

- we, our office holders and our interested parties, may not be parties to any arrangement whatsoever with Bezeq or another cellular operator that is intended or is likely to restrict or harm competition in the field of cellular services, cellular handsets or other cellular services. For the purpose of the license, an "interested party" is defined as a 5% or greater holder of any means of control;

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

- prior to operating a network, 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, in order to enable subscribers of all operators to communicate with one another, and are also required to provide national roaming services to new UMTS operators;

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

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- there are certain general types of payments that we may collect from our subscribers, general mechanisms for setting and raising tariffs, including the basic airtime charging units, and providing cellular services related benefits, reports that we must submit to the Ministry of Communications and an obligation to provide notice to our customers and the Ministry of Communications 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, establishing call centers, maintaining a certain service level of our network, collecting payments pursuant to a certain procedure, protecting the privacy of subscribers; use a specific format for our agreement with our customers; obtain an explicit request from our subscribers to purchase services, whether by us or by third parties, as a precondition to providing and charging for such services, including specific requirements as to format and a default blockage of the customer's ability to purchase certain services; maintain a specific form of evidence of customers' request to purchase our services as a precondition to charging our customers for those services; and provide certain notifications to customers regarding the services ordered and the procedures for handling subscribers' objections as to billing and repayment of overcharged sums;

- we may not be transfer, pledge or encumber the license or any part thereof without the prior approval of the Ministry of Communications, and face restrictions on the sale, lease or pledge of any assets used for implementing the license; and

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

In the event that we violate the terms of our license, we may be subject to substantial penalties, including monetary sanctions. In August 2012, the Communications Law was amended so as to set gradual financial sanctions on communication operators, for breach of their licenses, the sum of which shall be calculated as a percentage of the operator's 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. The Ministry of Communications published criteria to be used for determining the sum of the imposed sanctions, including the impact on the competition, the duration of the violation, the number of subscribers affected, the benefit to the operator from the violation and prior violations. Following the publication of the guidelines, the MOC has substantially increased its supervision activities and imposed monetary sanctions, including on us (in immaterial sums). 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.

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In July 2014, the Israeli Ministry of Communications published a hearing regarding 2G and 3G networks' coverage and quality requirements. The requirements proposed are more severe than the existing requirements and if adopted may adversely affect our result of operations.

In August 2014, the Ministry of Communications published a hearing regarding roaming services provided to subscribers. The hearing proposes, in order to increase competition and reduce roaming payments by subscribers, among others, to allow other Israeli telecommunication operators, including other cellular operators, mobile virtual network operators, international calls operators and landline operators to offer roaming services to a cellular subscriber of another cellular operator, while abroad, using the subscriber's usual cellular number as well as change the way payments for roaming services are calculated. See additional details under "-Tariff Supervision" below. The effects of the changes proposed vary significantly depending on the alternative adopted. The adoption of some alternatives may have a material adverse effect on our results of operations.

In August 2014, the Ministry of Communications proposed to amend the Israeli Communications Law and set fixed compensation in case of failure to meet response times the Minister of communications proposes to set for telecommunications operators' call centers, as well as a fixed compensation in case a subscriber was wrongfully overcharged (more severe than the existing provision to that effect in the Israeli Consumer Protection Law). We estimate that the proposed changes, if adopted as proposed, would have a material adverse effect on our results of operations.

Other licenses

Special general license for the provision of landline communications services

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

Data and transmission license

In 2000, we were granted a non-exclusive special license for the provision of local data communications services and high-speed transmission services, which is effective until December 2017. Following the grant of a special general license for the provision of landline telephone communications services to Cellcom Fixed Line, which also includes the services previously provided through our data and transmission license, our data and transmission license was amended in June 2006 to permit only Cellcom Fixed Line to be our customer of these services (and these services are now being provided to our customers through Cellcom Fixed Line). The provisions of our general and general specific licenses described above, including as to their extension, generally apply to this license, subject to certain modifications.

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Services in Judea and Samaria

The Israeli Civil Administration in Judea and Samaria granted us non-exclusive licenses for the provision of cellular and landline services to the Israeli-populated areas in Judea and Samaria. Those licenses are effective until December 31, 2017. We expect we will be able to renew this license without undue burden. The provisions of the cellular and landline licenses described above, including as to its extension, generally apply to those licenses, subject to certain modifications.

ISP license

In December 2001, we were granted a non-exclusive special internet services provider, or ISP, license for the provision of internet access services. The license is effective until December 2018 but may be extended by the Ministry of Communications for successive periods of five years. The provisions regarding the transfer of our shares that are included in the special license for the provision of data and transmission services described above, generally apply to this license.

Unified license

In November 2014, the Ministry of Communications published the unified license that will replace the current special general license for the provision of landline communications services, the general license for the provision of international telecommunication services and the MVNO license. The unified license will be in effect for the term of the general license it replaces and allow its holder to provide any of these services as well as ISP services (currently provided under an internet service provider license) and installation and maintenance of telecommunication equipment at a customer's or the licensee's premises (currently provided under a "network end point" license). The purpose of the unified license is to alleviate the requirements on license holders that are not required to have a nationwide infrastructure, in order to decrease entry barriers for additional competitors to enter those markets. Consequently our and our subsidiaries (including Netvision's) licenses, other than our cellular license, will be replaced in the future with the unified license. This replacement would occur in two phases: (1) replacement of each such license to a separate unified license format by August 2015, followed by (2) unification into one license encompassing all those services.

The unification process and timing is yet to be determined in coordination between the Ministry of communications and the operator and it may have various legal, financial, tax and accounting implications on our operations to the extent it would require the transfer of assets, goodwill, rights and obligations among the companies in our group or require an operational unification. The provision of several services by one entity would also circumvent the limitations on discrimination between operators.

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Tariff supervision

Under the Israeli Communications Regulations (Telecommunications and Broadcasting) (Payment for Interconnecting), 2000, interconnect tariffs among landline operators, international call operators and cellular operators are subject to regulation. In September 2010, the regulations were amended to dramatically reduce maximum interconnect tariffs payable to cellular operators, leading to a material decrease in our revenues.

As of 2013, we are prohibited, under the Communications Law, 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 . This has resulted in decreased sales of handsets by us and increased churn . In November 2013, the MOC instructed the discontinuance of any specific rebates and refunds to customers transferring from other cellular operators.

The Communication Law has prevented the collection of Early Termination Fees in the cellular market (as of 2012) and the other communication markets (as of 2011) (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) in existing as well as new pricing plans. An additional amendment to the Law prohibits the collection of the handset's remaining installments in one payment pursuant to early termination. This has led to materially increased churn rate and subscriber acquisition and retention costs and subsequently to accelerated price erosion.

Under the Communications Law, if a new operator or Hot Mobile and the hosting operator for national roaming have not reached an agreement as to the terms of the service (including the consideration), for any reason, until the service is to commence (after certain criteria is met) the service will be provided for the then prevailing interconnect tariff (in case of a call and for data services - 65% of the interconnect tariff per 1 mega) and subsequently (but no later than February 1, 2012) shall be determined by the Ministry of Communications with the consent of the Minster of Finance and applied retroactively. Unfavorable terms and consideration for the service, may result in material adverse effect on our results of operations. In October 2011, we entered a national roaming agreement with Golan (to be replaced by network sharing agreements, subject to regulatory approvals) and in September 2011, Hot Mobile entered a national roaming agreement with Pelephone and later with Partner.

Under the Communications Law, in the event that a MVNO and the cellular operator, will not have reached an agreement as to the provision of service by way of MVNO within six months from the date the MVNO has approached the cellular operator, and if the Ministry of Communications together with the Ministry of Finance determine that the failure to reach an agreement is due to unreasonable conditions imposed by the cellular operator, the Ministry of Communications may intervene in the terms of the agreement, including by setting the price of the service. Unfavorable terms and consideration for the service, may result in material adverse effect on our results of operations. For additional details see "Mobile Virtual Network Operators" below. To date, five MVNOs commenced operations after entering hosting agreements, one of them (Home Cellular) is hosted by us. In November 2014 the Ministry of Communications published the principles for reviewing the reasonability of MVNO hosting agreements, including existing agreements which the MVNO request to update if the existing agreement hinders its ability to compete and the parties fail to reach an agreement as to its update, to be carried out in light of the best offer made by the cellular operator to a business customer.

As of January 2013, we are obligated to pay our customers predetermined damages for each discrepancy from the customer's pricing plan, remedied after the customer complained, under the Consumer Protection Law. The damages are in an insignificant amount, but may aggregate to substantial amounts if paid to numerous customers on multiple occasions . In August 2014, the Ministry of Communications proposed a bill aiming to impose substantially increased predefined damages for any discrepancy from the customer's pricing plan, which may aggregate to substantial sums if paid to numerous customers on multiple occasions.

In August 2013, the Communication law was amended so as to authorize the Minister of Communications to give instructions and to set interconnect tariffs and usage of another operator's network rates and supervised services prices, based not only on previous method of cost (according to a calculation method determined by the Minister of Communications) plus reasonable profit, but also on the basis of one of the following: (1) payment for services provided by a licensee; (2) payment for a comparable service; or (3) comparison to 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.

In August 2014, the Ministry of Communications published a hearing regarding roaming services provided to subscribers. The hearing proposes, in order to increase competition and reduce roaming payments by subscribers, among others, to change the way payments for roaming services are calculated, such as by requiring a 1 second unit or 1 KB unit (as applicable) for billing of roaming services while abroad and not charging for certain intervals of the call. The adoption of such proposed changes may have a material adverse effect on our results of operations.

Network Sharing

In May 2014, the Ministry of Communications published a network sharing policy and later in July 2014, as part of the 4G frequencies tender documents, a draft license amendment which sets certain specific requirements for the approval of such sharing (some of which were amended during the tender process). The policy, as complemented by the draft license includes 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. Active sharing of radio networks in which the operators will use separate frequencies is possible in particular circumstances; (3) sharing of transmission from cell sites among operators sharing frequencies is generally allowed; (4) Investing in a 4G network will be considered as meeting an operator's undertaking to deploy a 3G network under certain conditions; (5) active sharing of radio networks using shared equipment and frequencies and certain other sharing agreements require the prior approval of the Ministry of Communications. Approval of active sharing of radio networks using shared equipment and frequencies is conditioned upon the following:

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- There will be at least 3 independent cellular radio networks in Israel;
- The sharing operators must allow other operators to join at equal terms to those awarded to the operator with the smallest market share;
- Each sharing operator may host a Mobile Virtual Network Operator without the other operator's consent;
- Each sharing operator will be responsible for the provision of cellular services under its license. An indefeasible right of use for the duration of the sharing may be considered as meeting this principle;
- Approvals will be granted for a limited period and may be extended;
- The shared radio network will be operated through a joint entity held equally by the sharing operators but structurally separated from each of them, which will be required to obtain a license from the MOC but will not be allocated frequencies and each of the sharing operators shall enter into a usage agreement with it. The shared network shall use the frequencies allocated to the sharing operators;
- The radio elements of the shared network will be held in equal parts by the sharing operators; each of the sharing partners will have a right of use in the other partner's passive infrastructure following termination of the agreement; and
- Additional principles relating to the execution of such sharing and its termination.

We entered network sharing agreements with Golan which includes a 4G active sharing agreement and a sharing agreement of passive elements only, with Pelephone, subject to regulatory approvals. Hot and Partner entered a network sharing agreement which was approved by the Anti Trust Commissionaire and awaits the approval of the Minister of communications. For details of our sharing agreements see "– Network and Technology - Network and Cell Sites Sharing Agreements" above.

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, which was published in May 2002. The construction of radio access devices, which are cell sites of smaller dimensions, is further regulated in the Communications Law.

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

- building permits from the local planning and building committee or the local licensing authority (if no exemption is available);
- approvals for construction and operation from the Commissioner of Environmental Radiation of the Ministry of Environmental Protection;

- permits from the Civil Aviation Authority (in most cases);
- permits from the Israel Defense Forces (in certain cases); and

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- other specific permits necessary where applicable, such as for cell sites on water towers or agricultural land.

In March 2010, a new Planning and Building bill, intended to replace the existing Planning and Building law passed the first stage of enactment at the Israeli parliament. If the bill is enacted, it may have an effect on, among other things, current permits for our cell sites, the procedures to receive building permits for our cell sites, the exemption for radio access devices set out in the Communications Law (which the bill proposed to annul), the scope of our indemnification obligations and the obligation to pay amelioration charge. In this preliminary stage of enactment, we cannot estimate the chances of its enactment or its effects, if so enacted, on our network and network build-out.

National Zoning Plan 36

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

National Zoning Plan 36 sets forth the considerations that the planning and building authorities should take into account when issuing building permits for cell sites. These considerations include the satisfaction of safety standards meant to protect the public's health from non-ionizing radiation emitting from cell sites, minimizing damage to the landscape and examining the effects of cell sites on their physical surroundings. National Zoning Plan 36 also determines instances in which building and planning committees are obligated to inform the public of requests for building permits prior to their issuance, so that they may submit objections to the construction of a site in accordance with the provisions of the Planning and Building Law. Many local authorities have argued that a building permit issued in reliance on the Plan requires the payment of amelioration charge. In 2013 this position was adopted in principle by an appeal zoning committee. Should the matter be decided against us in appeal zoning committees or by a court of law, the costs of constructing a site will substantially increase.

However, National Zoning Plan 36 is in the process of being revised. Currently proposed changes would impose additional restrictions and requirements on the construction and operation of cell sites. In June 2010, the proposed changes were approved by the National Council for Planning and Building and submitted for the approval of the Government of Israel. If the proposed changes are approved by the Israeli Government, they 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.

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Site licensing

We have experienced difficulties in obtaining some of the permits and consents required for the construction of cell sites, especially from local planning and building authorities. The construction of a cell site without a building permit (or applicable exemption) constitutes a violation of the Planning and Building Law. Violations of the Planning and Building Law are criminal in nature. The Planning and Building Law contains enforcement provisions to ensure the removal of unlawful sites. There have been instances in which we received demolition orders or in which we and certain of our directors, officers and employees faced criminal charges in connection with cell sites constructed and/or used without the relevant permits or not in accordance with the permits. In most of these cases, we were successful in preventing or delaying the demolition of these sites, through arrangements with the local municipalities or planning and building authorities for obtaining the permit, or in other cases, by relocating to alternate sites. As of December 31, 2014, we were subject to four 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 in the process of seeking to obtain building permits of 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 (given in May 2008) 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.

Notwithstanding the Attorney General's opinion, in May 2008 the District Court of Tel-Aviv-Jaffa, in its capacity as court of appeals, ruled that our and other cellular operators' devices do not meet the exemption's requirements and therefore cannot be relied upon by us and other cellular operators. We and other cellular operators appealed against this ruling to the Supreme Court and the State notified the Supreme Court it concurs with our and another cellular operator's appeals against the District Court ruling. The State requested that a third operator's appeal be returned to the District Court for further deliberation on specific questions regarding the interpretation of "rooftop" and the requirement to obtain an extraordinary usage permit in the circumstances of that case in the context of the exemption. The Supreme Court decided to hear our appeal together with two appeals filed in 2008 and 2009, including by the Union of Local Authorities in Israel and certain local planning and building authorities, requesting to argue against the position of the State.

In July 2009, the inter-ministry committee established to examine the appropriateness of future application of the exemption according to the Attorney General opinion, published its recommendations for future application of the exemption. While the Ministry of Communications recommended that, given the difficulties in obtaining permits for the construction of cell sites, the exemption should be reviewed after the lapse of one to two years from the approval of the new National Zoning Plan 36, to verify that it provides an adequate solution that allows the cellular operators to provide required communications services, the Ministries of Interior Affairs and Environmental Protection recommended that the exemption be annulled within 6 months from the date of the recommendations, based, among others, on the following arguments: (1) current cellular infrastructure is sufficient, given it is currently used to provide advanced services such as internet, radio and television broadcasting, while such services may be provided by a landline network; and (2) with respect to radiation safety, cell sites constructed pursuant to a building permit are preferable to radio access devices, and utilizing a cellular network to provide advanced services which can be provided through a landline network, is unjustified in light of the preventive care principle set in the Israeli Non-Ionizing Radiation Law.

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In September 2009, following publication of such recommendations, the Attorney General concluded that the application of the exemption does not balance properly the different interests involved and therefore cannot continue. In March 2010 the Israeli Ministry of Interior Affairs submitted draft regulations setting conditions for the application of the exemption for the approval of the Economy Committee of the Israeli Parliament. The regulations draft includes significant limitations on the ability to construct radio access devices based on such exemption, including a limitation of the number of such radio access devices to 5% of the total number of cell sites constructed or to be constructed with a building permit in a certain area during a certain period (which will render the construction of radio access devices based on the exemption practically impossible), and circumstances in which a request for a building permit for the radio access device was filed and no resolution has been granted within the timeframe set in the regulations.

In September 2010, the Israeli Supreme Court issued an interim order prohibiting further construction of radio access devices in cellular networks in reliance on the exemption. The interim order, that was issued pursuant to the Israeli Attorney General's request, will be in effect until the enactment of the proposed regulations or other decision by the court. A further decision of the Supreme Court in February 2011, states that the order will not apply to the replacement of existing radio access devices under certain conditions. As of September 2011, the order was relaxed to allow Hot Mobile and Golan to construct radio access devices in reliance on the exemption, under certain limitations. Our application to relax the interim order against us was denied. The Attorney General's opinion submitted in December 2013 to the court supports a permanent order to prevent us from constructing radio access devices in cellular networks in reliance on the exemption, until regulations limiting our reliance on the exemption are enacted but allowing us to replace radio access devices under certain conditions and allowing Hot mobile and Golan to continue to construct radio access devices in reliance on the exemption, until July 2014. We are awaiting the Court's decision. In September 2014 the court suggested the parties shall come to an agreement, based on the 2010 draft regulation and the parties are discussing such an arrangement.

Additionally, in November 2008 and again in October 2014, the District Court, in its capacity as court of appeals, ruled that the exemption does not apply to radio access devices, if the rooftop on which those devices are located is at the same level as a place of residence or other building that is regularly frequented by people. Other appeals relating to the exemption, including as to the requirement to obtain an extraordinary usage permit, are still under consideration, as well as 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 could adversely affect our existing network and network build-out, particularly given the rapidly growing demand for data traffic on our network (including as a result of our 2G and 3G sharing agreement, if approved), specifically in urban areas 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, 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.

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

Several local planning and building authorities argue that Israeli cellular operators may not receive building permits in reliance on the current National Zoning Plan 36, or the Plan, for cell sites operating in frequencies not specifically detailed in the frequencies charts attached to the Plan. In a number of cases, these authorities have refused to issue a building permit for such new cell sites, arguing that the Plan does not apply to such cell sites and that building permits for such cell sites should be sought through other processes (which are longer and cumbersome), such as an application for an extraordinary usage or under existing local specific zoning plans. Since June 2002, following the approval of the Plan, building permits for the Company's cell sites (where required) have been issued in reliance on the Plan. The current proposed draft amendment to the Plan covers all new cell sites requiring a building permit, independently of the frequencies in which they operate. Most of our cell sites and many cell sites operated by other operators, also operate in frequencies not specifically detailed in the Plan. The frequencies allocated in the 2011 UMTS tender to Hot Mobile and Golan as well as the frequencies awarded under the January 2015 4G frequencies tender, are also not 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 continues, it would have a negative impact on our ability to deploy additional cell sites (until such time as the Plan is amended to include all cellular cell sites), which could negatively affect the extent, quality and capacity of our network coverage and our ability to continue to market our products and services effectively.

In addition to cell sites, we provide repeaters (also known as bi-directional amplifiers) 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 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 (including those already installed) requires a building permit, we will perform cost-benefit analyses to determine whether to apply for permits for existing repeaters or to remove them and whether to apply for permits for new repeaters or femto-cells.

In addition, we construct and operate microwave sites as part of our transmission network. The various types of microwave sites receive permits from the Ministry of Environmental Protection in respect of their radiation level. Based on advice received from our legal advisors, we believe that building permits are not required for the installation of these microwave facilities on rooftops. If 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 effectively.

In August 2014, additional regulations that include a new exemption from obtaining a building permit came into effect. The exemption is afforded to the addition of an antenna to an existing cell site and is subject to receiving the Commissioner of Environmental Radiation approval that such addition does not change the radiation safety range set in relation to such cell site prior to the addition.

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.

In July 2011, an inter ministry team of the Ministries of Communications, Finance, Interior, Environmental Protection and the Anti-Trust Commissionaire, published its recommendations regarding cell site sharing. The recommendations include compulsory cell sites sharing in the construction of new cell sites or modification to existing cell sites which require a building permit (the Ministry of Communications may exempt from the obligation to share cell sites where such obligation poses technological and engineering difficulties), while providing preference and leniencies to the new UMTS operators, as well as the reduction of existing non shared cell sites quantity. Unlike the site sharing we wish to implement in the framework of our agreements with Pelephone and Golan, where site sharing will be carried out where it is beneficial for us, these recommendations or similar recommendations, if enacted, would further burden the construction of new cell sites and modifications to existing cell sites, and may adversely affect our existing cellular network, network build-out and results of operations.

In May 2012, the positions of the Ministries of Communications, Health and Environmental Protection in relation to the various aspects of the provision of 4G services in Israel were published, in response to a petition to hold a public debate regarding 4G service in Israel and prevent 4G spectrum allocation until such debate is held. The Ministries held the position that 4G services would involve some increase in the level of non-ionizing radiation the public will be exposed to and that in order to minimize such increase 4G deployment should be based on current cell sites, additional outdoor and indoor small cell sites and, whenever possible, use wireline infrastructure so that data traffic shall be carried mostly through wirelines and not cellular infrastructure. The adoption of the inter-ministry team's recommendations regarding cell site sharing is to be a precondition for the deployment of 4G infrastructure. Under such guidelines, the public's exposure to non-ionizing radiation level should not increase substantially. The Ministry of Health further opined that in light of the preventive precaution principle and, in order to reduce as much as possible the alleged health risks, 4G fields of usage and specific usage should be predefined and additional usage, where a landline alternative is available, should be conditioned on further discussion. The Ministry of Environmental Protection stated that full deployment of 4G infrastructure, under the guidelines set by the ministries shall decrease the level of exposure from handsets and create a more balanced level of exposure from cell sites, lower than current level in some areas where cellular infrastructure is insufficient and somewhat higher in areas where cellular

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infrastructure is sufficient and in any case much lower than the maximum exposure levels recommended by the international health organization and required under the environmental permits for cell sites in Israel. In August 2014, the Ministry of Communications allowed the provision of 4G services and in January 2015, 4G frequencies were awarded to the cellular operators. The abovementioned recommendations were not included in the approval or tender documents. See "Construction and operating permits from the commissioner of environmental radiation" below for additional details. For details regarding network and cell sites sharing agreements see "– A. History And Development Of The Company- Our History - Strategic network sharing agreements " and "- B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements" above.

Indemnification obligations

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

The National Council’s guidelines issued in January 2006 provide for an undertaking for full indemnification of the planning and building committees by the cellular companies, in the form published by the council. The form allows the indemnifying party to control the defense of the claim. These guidelines will remain in effect until replaced by an amendment to National Zoning Plan 36.

Since January 2006, we have provided approximately 380 indemnification letters in order to receive building permits. In addition, prior to January 2006, we provided three undertakings to provide an indemnification letter to local planning and building committees. Local planning and building committees have sought to join cellular operators, including us, as defendants in depreciation claims made against them even though indemnification letters were not provided. We were joined as defendants in a small number of cases, and as of December 31, 2014, we are a party to one depreciation claim. We expect that we will be required to continue to provide indemnification letters as the process of deploying our cell sites continues. As a result of the requirement to provide indemnification letters, we may decide to construct new cell sites in alternative, less suitable locations, to reduce capacity coverage or not to construct them at all, should we determine that the risks associated with providing such indemnification letters outweigh the benefits derived from constructing such cell sites, which could impair the quality of our service in the affected areas.

Construction and operating permits from the commissioner of environmental radiation

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

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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. Some repeaters require specific permits and others require general permits from the Commissioner in respect of their radiation level, and we ensure that each repeater functions within the parameters of its applicable general permit.

Pursuant to the Non-Ionizing Radiation Law, the construction and operation of cell sites and other facilities requires the prior approval of the Ministry of Environmental Protection. The validity of a construction permit will be for a period not exceeding three months, unless otherwise extended by the Commissioner, and the validity of an operating permit will be for a period of five years and we are required to submit to the Commissioner annual reports regarding radiation surveys conducted on our cell sites and other facilities by third parties that were authorized to conduct such surveys by the Commissioner. Permits that were issued under the Pharmacists Regulations were deemed, for the remainder of their term, as permits issued under the Non-Ionizing Radiation Law. An applicant must first receive a construction permit from the Commissioner and only then may the applicant receive a building permit from the planning and building committee. In order to receive an operating permit from the Commissioner, certain conditions must be met, such as presenting a building permit or an exemption and means taken (including technological means) to limit exposure levels from each cell site or facility (relevant also for the receipt of a construction permit). In April 2010, the Commissioner amended all existing operating permits to include an obligation to provide the Commissioner with online, ongoing data regarding the radiation level on each of the cell sites and other facilities operated by each cellular operator, satisfied by a monitoring system supplied by the Commissioner and installed at the operator's premises. 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, documentation and reporting requirements, and provisions for supervision of cell site and other facility operation. The Non-Ionizing Radiation Law grants the Commissioner authority to issue eviction orders if a cell site or other facility operates in conflict with its permit, and it imposes criminal sanctions on a company and its directors and officers for violations of the law. Failure to comply with the Non-Ionizing Radiation Law or the terms of a permit can lead to revocation or suspension of the permit, as well as to withholding the grant of permits to additional cell sites of that operator.

In December 2008, the Minister of Environmental Protection signed the Non-Ionizing Radiation Regulations, which did not include a section setting additional restrictions in relation to the operation of cell sites and other facilities, which was included in a previous draft of the regulations. This section is pending approval by the Internal Affairs Committee of the Israeli Parliament.

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In March 2013, a bill amending the Non-Ionizing Radiation Law so as to prohibit the grant of permits under such law for the construction and operation of cell sites situated within 75 meters from certain institutions, passed a preliminary phase of enactment in the Israeli Parliament. According to the bill, such permits granted prior to the enactment of the bill shall expire within 6 months from its effective date. In March 2013, another bill amending the Planning and Building Law was published, so as to broaden the public's right to submit objections to all requests for the construction of cell sites and to allow a wider discretion to the planning authorities in relation to such requests that are submitted in certain circumstances including similar to those described in the previous bill. If restrictions similar to those included in the previous draft of the Non-Ionizing Radiation Regulations (which included additional restrictions on the operation of cell sites and other facilities) or the proposed change to the Non Ionizing Radiation Law or the Planning and Building Law are subsequently adopted, they will, among other things, limit our ability to construct new sites (and if applied to existing cell sites, they 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 (Information Regarding Non-Ionizing Radiation from Cellular Telephones), 2002, regulate the maximum permitted level of non-ionizing radiation from handset that emit non-ionizing radiation, according to the European standard, for testing GSM devices, and the American standard, for testing TDMA and CDMA devices. 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.

We obtained type-approval from the Ministry of Communications for each handset model we started to import prior to November 2012. As of November 2012, we inform the MOC of new models that we start to import and receive the MOC's approval. 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. See "Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Legal Proceedings – Class Actions" for details regarding two class actions against us, in respect of handsets and accessories.

We are required to provide a warranty for certain end user equipment purchased from us, for certain malfunctions during the first year, and are required to provide repair services for two years and in certain cases, for three years. We are also required to annul equipment sale in certain circumstances, at the request of the customer.

Royalties

Under the Communications Law, the Israeli Communications Regulations (Royalties), 2001, and the terms of our general license, we are required to pay the State of Israel royalties equal to a certain percentage of our revenues generated from telecommunications services, less payments transferred to other license holders for interconnect fees or roaming services and losses from bad debt. No royalties were due for sale of handsets. As of 2013, that percentage was 0%.

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Frequency fees

Frequency allocations for our cellular services are governed by the Wireless Telegraph Ordinance. We pay frequency fees to the State of Israel in accordance with the Israeli Wireless Telegraph Regulations (Licenses, Certificates and Fees), 1987.

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. The operation of MVNOs in the Israeli cellular market has contributed to the increased competition. If our service to a MVNO is to be provided under unfavorable terms and consideration for us, it may adversely affect our revenues.

Although the regulations that regulate the operation of an MVNO deal with an agreement based MVNO, the Communications Law, instructs that in the event that an MVNO and the cellular operator will not have reached an agreement as to the provision of service by way of MVNO within six months from the date the MVNO has approached the cellular operator, and if the Ministry of Communications together with the Ministry of Commerce determine that the failure to reach an agreement is due to unreasonable conditions imposed by the cellular operator, the Ministry of Communications will use its authority to provide instructions. Such instructions may include intervening in the terms of the agreement, including by setting the price of the service. Furthermore, in November 2014 the Ministry of Communications announced it may review the reasonability of MVNO hosting agreements, including existing agreements which the MVNO request to update if the existing agreement hinders its ability to compete and the parties fail to reach an agreement. For the Minister of Communications' authority to give instructions and to set prices see "Item 4. Information on the Company – B. Business Overview - Government Regulations - Tariff Supervision". Unfavorable terms and consideration for the service may result in material adverse effect on our results of operations.

To date the Ministry of Communications has granted eleven MVNO licenses and five MVNOs have entered hosting agreements with cellular operators, without the Ministry of Communications's intervention Five MVNOs - Rami Levy, Home Cellular Alon Cellular Ltd., Azi and Cellact entered hosting agreements and commenced operations in December 2011 through December 2013. It is unknown if and when the others will commence operations. For additional details see "Item 4. B. – Business Overview – The Telecommunications Industry in Israel – Cellular services".

Additional MNOs

Hot Mobile (in September 2011) and Golan (In January 2012) were awarded new UMTS frequencies, following a spectrum tender held by the Ministry of Communications. Under the UMTS tender terms, both Golan's and Hot Mobile's commitment to pay license fees was reduced to NIS 10 million, after reaching 7% market share each, in the private sector . Hot Mobile and Golan were awarded certain additional benefits and leniencies, such as a prolonged timetable for network coverage completion and the right to use national roaming through cellular operators' networks.

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Under the Communications Law existing operators (other than Hot Mobile) are required to provide new UMTS operators and Hot Mobile national roaming services, for a period of seven to ten years (subject to certain conditions). If the new operator or Hot Mobile and the hosting operator have not reached an agreement, as to the terms of this service (including the consideration), for any reason, by the time that the service is to commence (after certain criteria are met) the service will be provided for the then prevailing interconnect tariff and subsequently (but no later than February 1, 2012) shall be determined by the Ministry of Communications with the consent of the Minster of Finance and applied retroactively.

In October 2011, we entered a national roaming agreement with Golan, under which we will provide Golan national roaming services and cell site sharing privileges (which will be later replaced by our network sharing agreements with Golan, subject to regulatory approvals), and Hot Mobile entered a national roaming agreement with Pelephone (and later with Partner). As a result, the Ministry of Communications did not determine the terms for the service.

In May 2012, Golan and Hot Mobile launched their UMTS services, which materially increased competition in the market, increased churn and accelerated price erosion, and have materially adversely affected our results of operations. Investing in a 4G Network will, under certain conditions, replace Golan and Hot Mobile's obligation to deploy a UMTS network. For additional details see "Network Sharing" above. For the Minister of Communications' authority to give instructions and to set prices in regards to national roaming agreements see "Item 4. Information on the Company – B. Business Overview - Government Regulations - Tariff Supervision".

In January 2014, the Israeli Ministry of Communications completed an 1800MHz frequencies tender, for 4G technologies (such as LTE, LTE Advanced). Participation in the tender was open for all current MNOs, MVNOs and other entities meeting certain condition and bands were awarded to the highest bidders. All existing MNOs and Marathon won bands in the tender and Marathon is expected to be awarded an MNO license. Under the tender terms, Marathon, Golan and Hot Mobile are eligible for up to 50% discount, 10% discount for each 1% addition to their market share, obtained over the next 5 years.

Landline

In May 2012, the Israeli Minister of Communications published a policy document regarding wireline wholesale services, which mainly provides 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 wholesale market's tariffs and terms of agreement shall be agreed through negotiations between the owners of the wireline infrastructure (Bezeq and Hot) and the other operators and once agreed will be offered on the same terms, to all other operators, including the owner's affiliates (3) the annulment of the structural separation between an owner of wireline infrastructure and its international landline operator and internet service provider affiliates and replacement thereof with an accounting separation within nine months from the date of execution of an agreement between the owner and another operator with a significant market share, unless the Minister of Communications finds that such annulment may considerably harm competition or the public.

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The Minister of Communications shall consider providing leniencies in relation to or annulment of the structural separation between an owner of wireline infrastructure and its cellular operator affiliate according to the pace of development of a wholesale market and the state of competition in the market. In case an effective wholesale market does not develop within twenty four months from the date of the policy document, the Ministry of Communications shall act to impose a structural separation in the owners of the wireline infrastructure between the infrastructure and the services provided through this infrastructure; (4) the annulment by the Minister of Communications of the structural separation in 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. The Minister of Communications shall consider imposing a requirement to provide television broadcasting services for the same price within a package of telecommunications services and separately; and (5) a change of the supervision on Bezeq retail tariffs to maximum tariffs rather than the current setting of fixed tariffs within six months from the date of execution of an agreement between Bezeq and another operator.

For changes to the Israeli Communication law, extending the Minister of Communications' authority to give instructions and set interconnect tariffs, usage of another operator's network rates and supervised services prices, and give instructions in relation to structural separation, see "-Tariff supervision" above.

As negotiations of such wholesale agreement failed, in January and February 2014, the MOC published hearings regarding terms for the provision of certain wholesale landline services by Bezeq and Hot to other operators (as well as an IRU of passive infrastructure elements by Bezeq and Hot of each other's networks) and the maximum prices it intends to set for certain wholesale services to be provided by Bezeq to other operators (excluding Hot). The MOC noted it is reviewing applying certain wholesale obligations on all landline operators, including us. The MOC further published its decision regarding the types of landline services that shall be offered through the wholesale landline market.

In November 2014, the Minister of Communications amended Bezeq's and Hot's Communications' licenses so as to include certain wholesale landline services, such as internet infrastructure services and wholesale landline telephony services, and the terms for the provision of such services (within 3-6 months from the date of that decision) as well as promulgated regulations setting the maximum tariffs of the wholesale landline services to be provided by Bezeq. In December 2014, Bezeq filed a petition with the Israeli Supreme Court seeking to annual such amendment to its license and the said regulations as well as an interim injunction. The court will hear Bezeq's petition and request for interim relief in March 2015, after the date in which it is required to commence provision of one of the services (Internet Infrastructure). In January 2015, the Ministry of Communications further amended Bezeq and Hot's licenses to include additional landline services, such as the use of certain of their physical infrastructure by operators who do not own such in