Cellcom Israel Ltd.
Form 20-F
March 02, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20–F

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

OR

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _________________ to _________________

OR

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

Date of event requiring this shell company report ....

Commission file number 001-33271

CELLCOM ISRAEL LTD.

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

ISRAEL

(Jurisdiction of incorporation or organization)

10 Hagavish Street, Netanya 42140, Israel

(Address of principal executive offices)

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2009, the Registrant had outstanding 98,895,729 Ordinary Shares, par value NIS 0.01 per share.

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

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

[ ] Yes   [X] No

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

Indicate by check mark whether the Registrant (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"). Until and including our financial statements for the year ended December 31, 2007, we prepared our consolidated financial statements in accordance with Israeli GAAP. Following the Company's adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP.
Unless we indicate otherwise, U.S. dollar translations of the NIS amounts presented in this annual report are translated for the convenience of the reader using the rate of NIS 3.775 to $1.00, the representative rate of exchange as of December 31, 2009 as published by the Bank of Israel.

Trademarks

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

Industry and Market Data

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

Special Note Regarding Forward-Looking Statements

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

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

The selected data presented below under the captions "Income Statement Data," and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 2009, 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, 2009, 2008 and 2007, and for each of the years in the three-year period ended December 31, 2009, 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, 2009 into US dollars solely for the convenience of the reader.

The figures for the years 2005 and 2006 have been restated to give retroactive effect to the initial implementation of the new Israeli Accounting Standard No. 27, "Property, plant and equipment", which came into effect on January 1, 2007. See note 2.U.2. to our consolidated financial statements for the year ended December 31, 2007 (included in our annual report on Form 20-F for the year ended December 31, 2007).

The figures for the years 2007 and 2008 have been adjusted to give the retrospective application effect of the change in our accounting policy with respect to subscriber acquisition and retention costs, applied in June 2009, retrospectively from January 1, 2007. See "Item 5. Operating and Financial Review and Prospects – A. Operating Results – Overview – Change in Accounting Policy Regarding Subscriber Acquisition and Retention Costs". Also see note 2.H to our consolidated financial statements for the year ended December 31, 2009 included elsewhere in this annual report.

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

The selected information also includes certain items for the years 2005 and 2006 in accordance with U.S. GAAP. Israeli GAAP differs in certain significant respects from U.S. GAAP. For a summary of certain significant differences, see note 28 to our consolidated financial statements for the year ended December 31, 2007 (included in our annual report on Form 20-F for the year ended December 31, 2007).

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented at December 31, 2009, translated using the rate of NIS 3.775 to $1.00, the representative rate of exchange on December 31, 2009 as published by the Bank of Israel.

	Year Ended December 31,	
	2005	2006
	(In NIS millions, except per share data)	
Income Statement Data:		
In accordance with Israeli GAAP		
Revenues	5,114	5,622
Cost of revenues	* 3,081	* 3,273
Selling and marketing expenses	623	656
General and administrative expenses	656	659
Other (income) expenses, net	* 13	* 6
Operating income	741	1,028
Financing income (expense), net	24	(155)
Income tax	* 234	* 314
Net income	531	559
Basic earnings per share	* 5.44	* 5.73
Diluted earnings per share	* 5.44	* 5.73
Weighted average ordinary shares used in calculation of basic earnings per share	97,500,000	97,500,000
Weighted average ordinary shares used in calculation of diluted earnings per share	97,500,000	97,500,000
U.S. GAAP Data(1):		
Net income	491	494
Basic earnings per share	5.04	5.07
Diluted earnings per share	5.04	5.07
Other Data:		

EBITDA(2)	1,643	1,864
Capital expenditures	747	521
Dividends declared per share	34.87	4.41
Net cash provided (used) by operating activities	1,272	1,477
Net cash provided (used) in investing activities	(619)	(633)
Net cash provided (used) by financing activities	1,114	(2,560)
Subscribers (in thousands) (3)	2,603	2,884
Period churn rate(4)	15.0%	16.8%
ARPU (in NIS)(5)	151	149

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

	Year Ended December 31, 2007*	2008*	2009	2009
	(In NIS millions, except per share data)			(In US$ millions)
Income Statement Data:				
In accordance with IFRS				
Revenues	6,050	6,417	6,483	1,717
Cost of revenues	3,315	3,396	3,333	883
Selling and marketing expenses	685	701	716	189
General and administrative expenses	653	659	660	175
Other (income) expenses, net	3	(29)	6	2
Operating income	1,394	1,690	1,768	468
Financing income (expense), net	(147)	(310)	(219)	(58)
Income tax	328	391	367	97
Net income	919	989	1,182	313
Basic earnings per share	9.42	10.12	12.01	3.18
Diluted earnings per share	9.34	9.96	11.90	3.15
Weighted average ordinary shares used in calculation of basic earnings per share	97,500,000	97,721,339	98,432,757	
Weighted average ordinary shares used in calculation of diluted earnings per share	98,441,260	99,279,924	99,306,714	
Other Data:				
EBITDA(2)	2,187	2,482	2,529	670
Capital expenditures	651	633	663	176
Dividends declared per share	13.90	11.23	11.91	3.15
Net cash provided (used) by operating activities	1,820	1,763	2,088	553
Net cash provided (used) in investing activities	(560)	(546)	(782)	(207)
Net cash provided (used) by financing activities	(405)	(1,853)	(678)	(180)
Subscribers (in thousands) (3)	3,073	3,187	3,292	
Period churn rate(4)	16.3%	18.9%	19.6%	
ARPU (in NIS)(5)	150	149	144	38

* Retrospective application due to accounting policy change in 2009 regarding Subscriber Acquisition and Retention Costs.

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

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

	As at December 31,			
	2007*	2008*	2009	2009
	(In NIS millions)			(In US$ millions)
Balance Sheet Data:				
In accordance with IFRS				
Cash	911	275	903	239
Working capital	716	461	1,254	332
Total assets	6,294	5,488	6,379	1,690
Shareholders' equity	881	390	374	99

* Retrospective application due to accounting policy change in 2009 regarding Subscriber Acquisition and Retention Costs.

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(1) Following the Company's adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP. Therefore, certain items in accordance with U.S. GAAP are presented only for the years 2005 and 2006. Under U.S. GAAP, DIC's acquisition of our shares in 2005 is treated as a purchase that requires a revaluation of our assets and liabilities, leading to increased amortization expense of intangible assets, offset by decreased depreciation expense of tangible assets under U.S. GAAP. In addition, we were required to push down certain DIC debt and the interest expense relating to such debt incurred to finance the acquisition until it was repaid in early 2006, leading to increased financial expense under U.S. GAAP.

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

The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,	
	2005	2006
	(In NIS millions)	
In accordance with Israeli GAAP		
Net income	531	559
Financing expense (income), net	(24)	155
Other expenses (income), net	13	6
Income taxes	234	314
Depreciation and amortization	889	830

EBITDA			1,643	1,864

	Year Ended December 31			
	2007*	2008*	2009	2009
	(In NIS millions)			(In US$ millions)
In accordance with IFRS				
Net income	919	989	1,182	313
Financing expense (income), net	147	310	219	58
Other expenses (income), net	3	(29)	6	2
Income taxes	328	391	367	97
Depreciation and amortization	790	821	755	200
EBITDA	2,187	2,482	2,529	670

* Retrospective application due to accounting policy change regarding Subscriber Acquisition and Retention Costs.

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

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

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

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

	Year Ended December 31,					
	2005	2006	2007	2008	2009	2009
	(In NIS millions, except number of subscribers and months)					(In US$ millions)
Revenues	5,114	5,622	6,050	6,417	6,483	1,717
less revenues from equipment sales	565	636	635	745	751	199
less other revenues*	38	61	93	135	162	43
Revenues used in ARPU calculation (in NIS millions)	4,511	4,925	5,322	5,537	5,570	1,475
Average number of subscribers	2,489,453	2,757,133	2,955,855	3,105,022	3,215,492	3,215,492
Months during period	12	12	12	12	12	12
ARPU (in NIS, per month)**	151	149	150	149	144	38

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

** ARPU for 2006 was restated to reflect the full impact of the change in the methodology of calculating our subscriber base implemented in July 2006, to allow comparison with 2007. If our methodology of calculating our subscriber base had not changed in July 2006, ARPU for the year ended December 31, 2006 and for the year ended December 31, 2007 would have been NIS 153, for the year ended December 31, 2008 would have been NIS 152 and for the year ended December 31, 2009 would have been NIS 148.

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 2009	3.807	3.729
October 2009	3.780	3.690
November 2009	3.826	3.741
December 2009	3.815	3.772
January 2010	3.765	3.667
February 2010	3.796	3.704

On February 26, 2010 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.796 to $1.00.

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

Year	Average (NIS)
2005	4.503
2006	4.442
2007	4.085
2008	3.568
2009	3.927

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Related to our Business

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

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

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

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

- further reduce interconnect tariffs, as the gradual reduction of interconnect tariffs from March 2005 to March 2008, which was imposed by the Ministry of Communications, led to a decrease in our revenues and any additional reduction, if decided upon, is expected to have an additional adverse effect on our results of operations, the extent of which will depend on the level of reduction and our ability to compensate for lost revenues. The Ministry of Communications is examining interconnect fees and is expected to conduct a hearing on the matter in the near future. Further, following the recent Ministry of Communications decision to change the pricing mechanism of cellular originated international calls, effective July 30, 2010, whereby the cellular operator will be entitled only to interconnect fees, any reduction of interconnect tariffs would effect our revenues from cellular originated international calls as well. See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Tariff Supervision" for additional details.

- reduce other tariffs, including roaming tariffs, or otherwise intervene in the pricing policies for our products and services, including by requiring us to offer a "limited credit" service to our post-paid customers. See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Tariff Supervision" for additional details;

- increase the number of competitors in the cellular market, including by awarding cellular licenses to additional UMTS operators and Mirs with certain benefits and leniencies not available to existing cellular operators, providing mobile virtual network operators, or MVNO, licenses, WiMAX licenses and/or licenses for the use of our network by competing technologies, such as Voice Over Broadband over cellular, or VOBoC; limit our ability to compete, including by limiting our ability to develop our network, by preferring new and/or small competitors in the allocation of new frequencies, including those designated to the 4th generation of cellular services. See "Item 4. Information on the Company – B. Business Overview" under "Competition" and under "Government Regulations – Mobile Virtual Network Operator" for additional details ;

- impose new safety or health-related requirements;

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

- impose restrictions on the provision of content and data services, including by preventing differentiation among the services provided, based on usage;
- impose restrictions on the provision of services or products we currently provide or regulate or otherwise intervene with the terms under which we provide them to our subscribers;
- impose restrictions on the provision of cellular internet services, including by preventing cellular operators from providing ISP services and mobile internet access as a bundle;
- limit or otherwise intervene with the services or products that we may sell;
- set higher service standards; or
- impose additional restrictions or requirements on the usage, operation or maintenance of databases or a stricter policy with respect to privacy protection.

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

If we fail to compensate for lost revenues, increased expenses 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 may not be able to obtain permits to construct and operate cell sites.

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

We have experienced difficulties in obtaining some of these consents and permits, particularly in obtaining building permits for cell sites from local planning and building authorities. As of December 31, 2009, we operated a small portion of our cell sites without building permits or applicable exemptions. Although we are in the process of seeking to obtain building permits or to modify our cell sites in order to satisfy applicable exemptions, we may not be able to obtain all the necessary permits or make the necessary modifications.

Approximately 29% of our cell sites operate without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. Our reliance on the exemption for radio access devices had been challenged by local planning and building authorities in the courts. and in May 2008 the District Court of Tel-Aviv-Jaffa, in its capacity as court of appeals, ruled that our and other cellular operators' devices do not meet the exemption's requirements and therefore the exemption may not be relied upon by us and by other cellular operators. We and other cellular operators appealed against this ruling to the Supreme Court. Additionally, in November 2008, the District Court of Central Region, in its capacity as court of appeals, ruled that the exemption does not apply to radio access devices, if the rooftop on which those devices are located is at the same level as a residence or other building that is regularly frequented by people. The exemption is also the subject of two petitions filed with the Supreme Court.

In September 2009, the Attorney General concluded that the current application of the exemption does not balance properly the different interests involved and therefore cannot continue unchanged. The Attorney General further concluded that, in accordance with its authority under applicable law, the Israeli Ministry of Interior Affairs (in consultation with the Ministry of Communications) should prepare regulations setting conditions for the application of the exemption, such as limiting the exemption to extraordinary circumstances, and bring such regulations for approval by the Economy Committee of the Israeli Parliament by the end of October 2009. Conditions substantially limiting our ability to use the exemption could adversely affect our existing network and network build-out. In January 2010, the Attorney General advised the Supreme Court that the regulations are expected to be brought before the Economy Committee of the Israeli Parliament by the end of February 2010 and that in case the government fails to do so by such date, the Attorney General will not object to the grant of an interim order preventing the construction of cellular radio access devices without a building permit. To the best of our knowledge, to date, no such regulations were brought before the Economy Committee of the Israeli Parliament.

Other appeals relating to the exemption, including as to the requirement to obtain an extraordinary usage permit, are still under consideration in the District Court and other similar challenges, as well as other claims asserting that those cell sites and other facilities do not meet other legal requirements continue. Further, in July 2008 and again in July 2009, an amendment to the Communications Law proposing to annul the exemption passed the preliminary phase of enactment in the Israeli parliament. An annulment or substantial limitation of the exemption could adversely affect our existing network and network build-out, particularly given the objection of some local planning and building authorities to grant due permits where required. See “Item 4. Information on the Company – B. Business Overview - Government Regulations— Permits for Cell Site Construction" for additional details regarding the exemption.

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, constitute grounds for termination of their lease agreements or claims for breach of such agreements. Our rooftop microwave sites and repeaters operate in reliance upon an exemption from the requirement to obtain a building permit. Substantially all of our outdoor microwave sites are rooftops. It is unclear whether other types of repeaters require a building permit. Our reliance on an exemption from the requirement to obtain building permits for repeaters has not, to date, been considered by the courts.

Operation of a cell site or other facility without a building permit or not in accordance with the permit or other legal requirements may result in the issuance of a demolition order for the cell site or other facility or the bringing of criminal charges against us and our officers and directors. Certain of our cell sites have been subject to demolition orders. In addition, criminal charges have been brought against us and our officers and directors in connection with cell sites that were alleged to have been constructed or used without the required permits or not in accordance with the permits granted. As of December 31, 2009, 22 criminal and administrative proceedings are outstanding; a demolition order has been granted with respect to two cell sites while the remaining 20 proceedings are pending further litigation.

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

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

An amendment is being prepared to the Non-Ionizing Radiation Regulations published in December 2008, which may include additional restrictions in relation to the operation of cell sites and other facilities (including maximum levels of exposure to non ionizing radiation). If restrictions similar to those included in a previous draft are subsequently adopted, they will, among other things, limit our ability to construct new cell sites(and if applied to existing cell sites, it will also limit our ability to renew operating permits for a number of our existing cell sites), especially in residential areas. See “Item 4. Information on the Company – B. Business Overview - Government Regulations— Permits for Cell Site Construction" for additional details regarding a petition on the matter as well as a proposed amendment to the Non-Ionizing Radiation Law, aiming to cancel the requirement to obtain the Minister of Communications' approval to the Non-Ionizing Radiation Regulations, where such regulations may have a substantial and direct effect on the monetary burden imposed on the communication market.

The Israeli National Zoning Plan 36, or the Plan, which regulates cell site construction and operation is in the process of being changed. Current proposed changes impose additional restrictions and requirements on the construction and operation of cell sites and will, if approved by the Israeli National Council for Planning and Building and thereafter by the Government of Israel, 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, could adversely affect our existing network and may delay the future deployment of our network. The National Council is expected to deliberate on the subject in the first half of 2010.

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

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

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

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

In January 2006, the law was amended to require an applicant, as a precondition to obtaining a cell site construction permit from a planning and building committee, to provide a letter to the committee indemnifying it for possible depreciation claims. As of December 31, 2009, we have provided approximately 289 indemnification letters to local planning and building committees. Calls upon our indemnification letters may have a material adverse effect on our financial condition and results of operations. We may also decide to demolish or relocate existing cell sites to less favorable alternatives and to construct new cell sites in alternative, less suitable locations or not at all, due to the obligation to provide indemnification. As a result, our existing service may be impaired or the expansion of our network coverage could be limited.

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

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

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

Handsets, accessories and various types of cell sites are known to be sources of non-ionizing radiation emissions and are the subject of a public debate in Israel. While, to the best of our knowledge, the handsets that we market comply with the applicable legislation that relate to acceptable "specific absorption rate," or SAR, levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual level of SAR of the handsets throughout the lifecycle of the handsets, including in the case of handset repair. See also "Item 4. Information on the Company – B. Business Overview - Government Regulations - Handsets". Recommendations by the Israeli Ministry of Health published in July 2008, to take precautionary measures when using cellular handsets, have increased the concerns of the Israeli public. The Ministry of Health indicated that although the findings of the international study on whether cellular phone usage increases the risk of developing certain tumors were not yet finalized, partial results of several of the studies were published, and while these studies did not demonstrate a connection between cellular phone exposure and tumor growth, a relationship between prolonged cellular phone usage and tumor development was observed in some of these studies. This publication and other media reports have resulted in the introduction of several bills, aimed at increasing awareness of the possible risks of cellular phones usage and reducing usage thereof, mainly by young people. These bills await deliberation by the Israeli Parliament.

Concerns regarding cell sites have already 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. In July 2009, the Ministries of Interior Affairs and Environmental Protection adopted a position (as part of the recommendations made by an inter-ministry committee established to examine the appropriateness of future application of the exemption from obtaining building permits for radio access devices) that, with respect to radiation safety, cell sites constructed pursuant to a building permit are preferable to radio access devices and that the 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 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 or if non-ionizing radiation levels are found to be higher than the standards set for handsets and cell sites, consumers may be discouraged from using cellular handsets and regulators may impose additional restrictions on the construction and operation of cell sites or handset usage. As a result, we may experience increased difficulty in constructing and operating cell sites and obtaining leases for new cell site locations or renewing leases for existing locations (although so far, in total we have experienced renewal problems with approximately 7% of our cell site leases each year); we may be exposed to property depreciation claims; we may lose revenues due to decreasing usage of our services; we may be subject to increased regulatory costs; and we may be subject to health-related claims for substantial sums. See “Item 8. Financial Information - A. Consolidated Statements and Other Financial Information – Legal Proceedings—Purported class actions” for additional details on a purported class action filed against us in that respect. We have not obtained insurance for these potential claims. An adverse outcome to, or settlement of, any health - related litigation against us or any other provider of cellular services could have a material adverse effect on our results of operations, financial condition or prospects.

We face intense competition in all aspects of our business.

The Israeli cellular telephone market is highly competitive. We compete for subscribers with three other cellular operators. While we enjoy the largest market share, estimated to be 34.6% as of December 31, 2009, two of our competitors, Partner and Pelephone, enjoy estimated market shares of 32% and 28.9% respectively, with MIRS Motorola Communications Ltd., or MIRS, estimated to have a market share of 4.5%. The current competitive pressure in the Israeli market results primarily from the highly penetrated state of the market. See also “Item 4. Information on the Company - B. Business Overview - The Telecommunications Industry in Israel”. This means that market growth is limited and cellular operators compete intensely to retain their own subscribers and attract those of their competitors. The competition in our market has further increased following the launch of Pelephone's UMTS/HSPA network in 2009. Further, competition changes as cellular operators enter into additional communication markets, such as broadband and landline telephony . Any of the following developments in our market or the implementation by the Ministry of Communications of the recommendations of a public committee appointed by it to review issues in the telecommunications market adopted by the Ministry of Communications (certain such recommendations were also adopted in the Israeli Government resolutions) in August 2008 (see "Item 4. Information on the Company – B. Business Overview – Competition.”), are expected to increase competition further and may result in an increased churn rate, increased subscriber acquisition and retention costs and ultimately reduced profitability for us:

- Pelephone’s offering of certain services jointly with its parent company, Bezeq, the incumbent landline operator; although Bezeq and Pelephone may not currently offer integrated or combined packages of cellular and landline telephone and other telecommunication services, the Ministry of Communications has stated that once Bezeq’s share of the Israeli landline telephone market falls below 85%, it would be permitted to offer certain services jointly with its subsidiaries, provided that a similar bundle is made available by a competitor of Bezeq (such as a landline and cellular bundle) and subject to each of the services in Bezeq's bundle being available for sale separately. In February 2010 the Ministry of Communications determined that Bezeq's market share as of December 2009 is 75.7% in the private sector and 83.9% in the business sector.

- the entry into the Israeli cellular market by additional operators or MVNOs, could increase competition and thus may have material adverse affect on our revenues. Regulations necessary for the issuance of an MVNO license, came into effect in January 2010, and entities wishing to obtain an MVNO license may now file an application for an MVNO license with the Ministry of Communications. Further, in October 2009, general principles for an additional UMTS spectrum tender, expected to be published during the first half of 2010, were published by the Ministry of Communications and the

Israeli Treasury Ministry joint tender committee. These principles include a regulatory change intended to alleviate entry barriers and shorten the time frame for countrywide cellular service provision by a new entrant or by an existing operator wishing to upgrade its network, by allowing national roaming or regulating compulsory site sharing; the Ministry of Communications is expected to conduct a hearing on those regulatory changes during 2010;. See "Item 4. Information on the Company – B. Business Overview" under "Competition" and under "Government Regulations – Mobile Virtual Network Operator" for additional details;

- the expansion of the "Open Garden" content provision offerings, as it will transform the cellular operator, previously the provider of content to its subscribers, into one of many content providers competing to provide content to the operator's own subscribers; The Open Garden international trend is facilitated by technological changes allowing high speed internet surfing and supporting handsets and the entry of international media providers and handsets manufacturers into the cellular content provision market. Further, expansion of arrangements such as that introduced by Apple, in which subscribers can purchase content only through their handset manufacturer's store, could adversely effect our content revenues. See "Item 4. Information on the Company – B. Business Overview" under "Competition".

- new initiatives and combinations of services following the recent acquisitions in the Israeli communication market, as it will allow some of the players to offer quadruple and even quintuple service bundles to existing customers in each of their previously separated platforms as well to new customers, such as the Mirs – Hot combination, when the acquisition of Mirs is completed. For details see "Item 4. Information on The Company -Business Overview - The Telecommunications Industry in Israel - Cellular Services".

- the launch of a UMTS network by Mirs as it would strengthen Mirs's ability to compete in the provision of inbound and outbound roaming services as well as improve its competitive position in the market; under the general principles for an additional UMTS spectrum tender, Mirs will be the only existing cellular operator allowed to participate in the tender;

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

- the entry into the cellular market of mobile WiMAX technology (by a new entrant) or landline WiMAX technology (as it will enlarge coverage by cordless landline networks); the Ministry of Communications published a WiMAX policy on March 1, 2009 and is expected to publish a landline WiMAX frequencies tender in 2010;and

- the entry into the communications market of operators of competing technologies, which may be granted a license to use the cellular networks, such as VOBoC; To date, the Ministry of Communications has granted three trial licenses for VOBoC and demanded cellular operators to provide the VOBoC customers with service equal to the operator's own data customers, following which it is expected to conduct a hearing regarding VOBoC policy and licenses.

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

In order to attract and retain the maximum number of subscribers in our highly competitive market, we design specific calling plans to suit the preferences of various subscriber groups. We require sophisticated information systems to record accurately subscriber usage pursuant to the particular terms of each subscriber’s plan as well as accurate database management and operation of a very large number of calling plans. From time to time, we have detected some discrepancies between certain calling plans and the information processed by our internal information systems, such as applying an incorrect rebate or applying an incorrect tariff to a service resulting in a higher charge. We have invested substantial resources to refine and improve our information and control systems and ensure that our new calling plans are appropriately processed by our information systems; we have also taken steps to remedy the identified discrepancies and have established reserves where the discrepancies are quantifiable. Despite our substantial investments, we may experience discrepancies in the future due to the multiplicity of our plans and the scope of the processing tasks. Further, while we invest substantial efforts in monitoring our employees and third-party distributors and dealers that market our services, it is possible that some of our employees, distributors or dealers may offer terms and make (or fail to make) representations to existing and prospective subscribers that do not fully conform to applicable law, our license or the terms of our calling plans. As a result of these discrepancies, we may be subject to subscribers’ claims, including class action claims, and substantial sanctions for breach of our license or the applicable laws and regulations that may materially adversely affect our results of operations.

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

We provide services to millions of subscribers on a daily basis. As a result of the scope and magnitude of our operations we are subject to the risk of a large number of lawsuits, including class action suits by consumers and consumer organizations, with respect to billing and other practices. These actions may be costly to defend and could result in significant judgments against us. The Israeli Class Actions Law, 2006 and the 2005 amendment to the Israeli Consumer Protection Law, 1981 include provisions that expand the causes of action for which a class of litigants may bring suit, including with regard to any damages allegedly incurred prior to the effective date of these laws, reducing the minimal requirements for certification of a class action lawsuit and reducing the qualifications required to be a lead plaintiff in a class action lawsuit. Following these changes, an increased number of requests to certify lawsuits as class actions were approved by Israeli courts. These laws have increased and may continue to increase the number of requests for certification of class actions against us, our legal exposure and our legal costs in defending against such suits, which as a result may materially and adversely affect our financial results. Other legislative amendments, such as the amendment to the Communications Law, regulating "spam" and other amendments to the Consumer Protection Law, also encourage the filing of lawsuits, including purported class actions, against us. Currently, we are engaged in a number of purported class action suits as a defendant, some of which are for substantial amounts. In 2009, two requests to certify lawsuits as class actions against us were approved and shall be tried as class actions. We have settled one and appealed the other. Should our appeal be rejected and the class action succeed or other requests to certify lawsuits against us as class actions are approved and succeed, this may have a material adverse affect 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".

We are subject to the risk of intellectual property rights claims against us, including in relation to 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. 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 face claims of having been in violation of the law and our license requiring the implementation of number portability and the terms of our license governing the method of charging for SMS messages.

As a result of an amendment to the Communications Law in March 2005, cellular and landline telephone operators were required to implement number portability by September 1, 2006. Number portability permits subscribers to change to another network operator without having to change their telephone numbers. Despite efforts to introduce the requisite technology and coordinate the transition to number portability by September 1, 2006, no cellular or landline operator had implemented number portability by that date and. Number portability was implemented on December 2, 2007. See "Item 4. Information on the Company – B. Business Overview – Competition" for additional details.

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

We may be required to make substantial investments or cease offering certain products or services or change their terms to meet growing demand for data consumption

Experience in other developed countries has indicated that the growing demand for Internet, content and data through advanced third generation cellular phones, modems and other devices using cellular data (such as net books) results in a rapid growth of data traffic on cellular networks. Experts estimate that data traffic will grow even faster in the future and some operators have already taken steps aimed at reducing data usage by their subscribers, including by transferring traffic to non-cost alternative networks. Our strategy to grow and develop our Internet, content and data services has proven to be successful and contributed positively to our results of operations. Any unexpected growth in data consumption by our subscribers and/or regulatory changes (including with respect to the 'fair usage' principle in respect of Internet usage loads management to allow proper usage for all users, the construction and operation of our network or the allocation of additional spectrum) may require us to cease offering certain products and/or services we currently offer and/or change their terms and conditions and/or make substantial unplanned investments, which may have an adverse affect on our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The cellular market is known for rapid and significant technological changes. Our current technologies, including our 3.5G technologies, may be overtaken rapidly, requiring us to invest in alternative technologies to remain competitive. Further, technologies such as wireless broadband access services such as WiMAX, Wi-Fi, VOB and other technologies that have the capacity to handle cellular calls or data transfer (such as VoBoC), may enter our market and compete with traditional cellular providers, thus further intensifying the competition we face and requiring us to reduce prices, thus adversely affecting our results of operations. The Ministry of Communications has granted trial licenses to certain entities to use cellular networks for the provision of VOBoC and is expected to publish a WiMAX frequencies tender in 2010, in which it is expected to allocate mobile WiMAX frequencies to a new operator, since the present cellular operators, including us, are not eligible to participate in that tender under the Ministry of Communications' policy.

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

We rely on agreements to provide roaming capability to our subscribers in many areas outside Israel. As of December 31, 2009, we had roaming arrangements with 552 cellular providers in 177 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. Competition is expected to intensify further, if Mirs begins providing roaming services as well. If our competitors' providers can deliver a higher quality or a more cost effective roaming service, then subscribers may migrate to those competitors and our results of operation could be adversely affected. Further, we may not be able to compel providers to participate in our technology migration and enhancement strategies. As a result, our ability to implement technological innovations could be adversely affected if these overseas providers are unable or unwilling to cooperate with the further development of our network or if they cease to provide services comparable to those we offer on our network.

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

Our substantial debt increases our exposure to market risks, may limit our ability to incur additional debt that may be necessary to fund our operations and could adversely affect our financial stability; Regulatory change may affect our possibilities to raise debt from institutional investors.

As of December 31, 2009, our total indebtedness was approximately NIS 4,535 million ($1,201 million). The indentures governing our debentures currently permit us to incur additional indebtedness. Our substantial debt could adversely affect our financial condition by, among other things:

- increasing our vulnerability to adverse economic, industry or business conditions, including increases in the Israeli Consumer Prices Index, or CPI;

- limiting our flexibility in planning for, or reacting to, changes in our industry and the economy in general;

- requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, thus reducing the funds available for operations and future business development; and

- limiting our ability to obtain additional financing to operate, develop and expand our business.

In February 2010, the Committee for Establishing Parameters for Institutional Bodies' Investments in Nongovernmental Bonds, nominated by the commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance, published its recommendations for regulatory intervention of the commissioner as well as recommendations for Israeli institutional investors to follow, before investing in non-governmental debentures. If the committee's report recommendations are adopted, they may adversely affect our possibilities of raising debt from Israeli institutional investors as well as the terms and price of such debt raising. See "Item 5. Operating and Financial Review and Prospects. – B. Liquidity and Capital Resources" for additional details.

Our business results may be affected by continued recession

Most of our revenues are not guaranteed or prepaid and are usage dependant. In 2009 we experienced a substantial decline in our roaming services revenues due to a reduction in incoming and outgoing tourism due to the current global economic recession and also an increase in allowance for doubtful accounts which have been influenced by the global economic slowdown. For further details see "Item 5. Operating and Financial Review and Prospects – A. Operating Results – Results of Operations Comparison of 2007, 2008 and 2009 - Selling and marketing expenses and general and administrative expenses") If this recession continues or reoccurs, usage of our services decreases and we cannot otherwise compensate for lost revenues, it may have a material adverse effect on our results of operations, financial condition or prospects. If the number of customers that are unable to pay their bills increases or one or more of our larger business customers fails to pay the amount owed to us, it may materially increase our bad debts and have a material adverse effect on our results of operations and financial condition. Furthermore, the recession may adversely affect third parties we rely upon in the provision of our services, including interconnecting telecommunication providers, roaming partners and services and equipment providers. If those providers fail to provide reliable and consistent services and/or equipment to us on the requisite standards of quality and on a timely basis, our ability to provide services to our subscribers may be reduced in scope and/or in quality, until and inasmuch as an alternative provider can be found, and consequently our license may be at risk of revocation for failure to satisfy the required service standards. An alternative provider and/or solution, may involve additional expenses and/or investments on our part and/or may involve terms that are less favorable to us, including reduced revenues. In addition, if any damage is caused to us and/or we are found liable for damages caused to third parties by such service or equipment providers and such providers are unable to indemnify us for such damages, we may have to bear the cost of such damages, which may be substantial, and such outcome may adversely affect our financial condition.

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

A portion of our cash payments are incurred in, or linked to, foreign currencies, mainly US Dollars. In particular, in 2007, 2008 and 2009, payments in U.S. dollars or linked to the U.S. dollar represented approximately 33%, 33% and 36%, respectively, of total cash outflow (including payments of principal and interest on our debentures). These payments included capital expenditures, some of our operating lease payments, payments to equipment suppliers including handset suppliers and, in 2007 and in 2008, payments of principal and interest on our credit facility (voluntarily prepaid in full in March 2008). As almost all of our cash receipts are in NIS, any devaluation of the NIS against those foreign currencies in which we make payments, particularly the U.S. dollar, will increase the NIS cost of our foreign currency denominated or linked expenses and capital expenditures.

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

Furthermore, since the principal amount of and interest that we pay on our Series A, B, C and D debentures, are linked to the Israeli CPI, any increase in the Israeli CPI will increase our financial expenses and could adversely affect our results of operations. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service – Public Debentures" for details.

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

In February 2006, we adopted a dividend policy targeting a payout ratio of at least 75% of our net income in each calendar year, subject to any applicable law, our license and contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. In 2007, 2008 and 2009, our Board of Directors has declared dividends constituting as much as 95% or more of our net income and may declare dividends in similar rates in the future. See "Item 8. Financial Information - A. Consolidated Statements and Other Financial Information - Dividend Policy". Our license requires that we and our 10% or more shareholders maintain at least $200 million of combined shareholders' equity. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to pay dividends at a ratio to net income that is less than that paid in the past.

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

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

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

We depend upon a small number of suppliers to provide us with key equipment and services. For example, Nokia Siemens Israel provides our network system based on

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

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

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

In addition, pursuant to the "Guidelines for Sound Bank Administration" issued by the Israeli Supervisor of Banks, the amount that an Israeli bank may lend to one group of borrowers and to each of the six largest borrowers of such banking corporation is limited. Since we are a member of IDB's group of borrowers, these guidelines may limit the ability of Israeli banks to lend money to us.

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

As of December 31, 2009, DIC held, directly and indirectly, approximately 48.57% of our outstanding share capital. Pursuant to shareholders agreements among DIC and certain of our minority shareholders, who in the aggregate own approximately 3.45% of our ordinary shares, DIC has been granted the voting rights in respect of those shares. In addition to DIC's shareholdings and such additional voting rights, it has the right to appoint the 20% of our directors that we are required by our license and articles of association to have appointed by Israeli citizens and residents among our founding shareholders. Accordingly, subject to legal limitations, DIC has control over all matters requiring shareholder approval, including the election and removal of our directors and the approval of significant corporate transactions. This concentration of ownership could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares.

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

Risks Relating to Operating in Israel

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Ordinary Shares

A substantial number of our ordinary shares could be sold into the public market, which could depress our share price.Our largest shareholder, DIC, holds approximately 48.57% of our outstanding ordinary shares, as of December 31, 2009. The market price of our ordinary shares could decline as a result of future sales into the market by DIC or other existing shareholders or the perception that these sales could occur. DIC sold 11,425,000 ordinary shares, or approximately 11.62% of our outstanding shares in a number of transactions outside the United States in 2007 and 2008. 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, as of December 31, 2009 we have 704,674 shares reserved for issuance upon the exercise of options; the options are subject to vesting schedules but vesting will be accelerated upon certain events including any sale by DIC that leads to DIC ceasing to control (as such term is defined in the Israeli Securities Law, 1968, namely the ability to direct our activities) us. See "Item 6. Directors, Senior Management and Employment – E. Share Ownership – 2006 Share Incentive Plan".

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

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

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

Our principal founding shareholders were DIC, a subsidiary of IDB, which prior to September 2005 indirectly held approximately 25% of our share capital, and BellSouth Corporation and the Safra brothers of Brazil, which together indirectly held approximately 69.5% of our share capital and voting rights in respect of an additional 5.5% of our share capital. DIC acquired the stakes of BellSouth and the Safra brothers in September 2005 and, following the sale of minority stakes to four groups of investors in 2006, the sale of shares as part of our initial public offering in February 2007, subsequent sales of minority stakes in 2007 and 2008 and purchases of minority stakes from two of the original 1997 shareholders (the voting rights of which were held by DIC prior to the purchase) in 2009, DIC currently directly and indirectly holds approximately 48.57% of our share capital and the voting rights in respect of an additional approximately 3.45% of our share capital.

Following the acquisition by DIC in 2005, DIC put in place a new management team, including Ami Erel, the Chairman of our Board of Directors, who had previously been President and CEO of Bezeq, Amos Shapira, our Chief Executive Officer, who had been CEO of Kimberly-Clark's Israeli subsidiary and El Al Airlines, Tal Raz, our Chief Financial Officer until September 2009, who continues to serve as a director, and formerly had been one of the founders and a director of Partner, one of our principal competitors and Adi Cohen, our VP Marketing, who had been marketing manager of Shufersal, Israel's largest retail chain, and previously, Partner's marketing manager. While maintaining its focus on increasing efficiency, our management team has successfully implemented a series of initiatives to drive our growth, including the continued enhancement of our distinctive brand, a greater focus on customer service and new sales campaigns. These initiatives resulted in continuous growth in all operational and financial parameters and strengthening our position as the largest cellular operator in Israel.

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

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

Principal Capital Expenditures

Our accrual capital expenditure in 2007, 2008 and 2009 amounted to NIS 651 million, NIS 633 million and NIS 663 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and other assets, such as spectrum licenses, UMTS networks' enhancement and expansion and development of new products and services during a given period. The amounts of Capital expenditure have been adjusted to include capitalized subscriber acquisition and retention costs. For the periods under review, a key focus of our capital investment has been the enhancement and expansion of our networks and transmission infrastructure.

B. BUSINESS OVERVIEW

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues from services, EBITDA and EBITDA margin for the year ended December 31, 2009. Upon launch of our services in 1994, we offered significantly lower prices for cellular communications services than the incumbent provider and transformed the nature of cellular telephone usage in Israel, turning it into a mass market consumption item. We surpassed the incumbent cellular operator and became the market leader in terms of number of subscribers in 1998 and, despite the entry of two additional competitors, we have continued since then to have the highest number of subscribers. As of December 31, 2009, we provided services to approximately 3.292 million subscribers in Israel with an estimated market share of 34.6%. Our closest competitors have estimated market shares of 32% and 28.9%, respectively. In the year ended December 31, 2009, we generated revenues of NIS 6,483 million ($1,717 million), EBITDA of NIS 2,529 million ($670 million), and operating income of NIS 1,768 million ($468 million). See note 2 to the table in "Item 3. Key Information – A. Selected Financial Data" for a definition of EBITDA.

We offer a broad range of cellular services through our cellular networks covering substantially all of the populated territory of Israel. These services include basic and advanced cellular telephone services, text and multimedia messaging services and advanced cellular content and data services. We also offer international roaming services in 177 countries as of December 31, 2009. We offer our subscribers a wide selection of handsets from various leading global manufacturers, as well as extended warranty and repair and replacement services to 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 to selected businesses, using our advanced inland fiber-optic infrastructure.

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

	Year Ended December 31,				
	2005	2006	2007	2008	2009
Subscribers (end of period) (in thousands)(1)	2,603	2,884	3,073	3,187	3,292
Revenues (in NIS millions)	5,114	5,622	6,050	6,417	6,483

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

The Telecommunications Industry in Israel

The following table sets forth selected macro statistics about Israel at and for the year ended December 31, 2009:

Population (millions, at end of year)	7.5
GDP ($ billions) (1)	192
GDP per capita ($ 000) (1)	26
Exports of goods & services ($ billions) (1)	67
CPI change	3. 9%
Long-term local currency sovereign credit rating by S&P	A(Stable)
Unemployment rate (yearly average)	7.7%

(1) for the 12 months ended September 30 2009, translated to USD based on the average representative rate of exchange for the 12 months ended September 30,2009.

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

The size of Israeli telecommunications services revenues in 2008 was approximately NIS 29 billion. Telecommunications services consist of several segments, which are highly competitive. Of the total telecommunications services revenues in 2008, approximately 55% was comprised of cellular services, approximately 24% was local landline voice and Internet access services, approximately 6% was international voice services, approximately 13% was multichannel television services, and approximately 2% was Network Termination Point. Cellular spending was approximately 2.1% of GDP, higher than in developed European economies and the United States.

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

In 2009, the Israeli telecommunications market underwent several ownership changes. See "Cellular Services" below for additional details.

Cellular Services

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

The Israeli cellular market is highly penetrated. The market reached an estimated penetration rate (the ratio of cellular subscribers to the Israeli population) at December 31, 2009, of approximately 127%, representing approximately 9.5 million cellular subscribers.

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

	December 31,				
	2005	2006	2007	2008	2009
Total subscribers (millions)	7.8	8.4	9.0	9.2	9.5
Cellular penetration (%)	112	118	124	124	127

Source: Reported by Cellcom, Partner and Pelephone (Pelephone's most updated report dates 3rd quarter 2009). Cellcom estimates for MIRS as MIRS does not disclose operating information.

There are currently four cellular operators in Israel: Cellcom, Partner, Pelephone, and MIRS. We estimate that the distribution of cellular subscribers among these operators as of December 31, 2009 was: Cellcom 34.6%, Partner 32%, Pelephone 28.9% and MIRS 4.5%. Subscriber data is based on public information as of December 30, 2009, excluding Pelephone's data which is as of September 30 2009 and except for MIRS, which is based on our estimate. However, there is no uniform method of counting subscribers.

We are controlled by DIC, a subsidiary of IDB, and started operations at the end of 1994. Until recently, Partner was majority-owned by Hutchinson Whampoa Ltd. and started operations in 1998. In October 2009, Scailex Corporation Ltd., or Scailex, an Israeli company listed on the TASE and indirectly controlled by Israeli businessman Mr. Ilan Ben-Dov, purchased the controlling stake in Partner. Scailex is also the official importer of Samsung cellular phones to Israel. Pelephone is a wholly-owned subsidiary of Bezeq and started operations in 1986. The major controlling shareholder of Bezeq following its privatization in 2005 is F.Sab.Ar Holdings Ltd. which is controlled by Saban Capital Group (controlled by the media entrepreneur Haim Saban), Apax Partners (the international private equity firm) and Arkin Communications (controlled by the Israeli businessman Mori Arkin). In October 2009, Bezeq announced that F.Sab.Ar Holdings Ltd. entered into an agreement for the sale of its holdings in Bezeq to 012 Smile Communication Ltd., or Smile. Smile is an Israeli company traded on the NASDAQ and the TASE and controlled by Internet Gold Golden Lines Ltd., or Internet Gold. Both Smile and Internet Gold form part of the Eurocom Communication Group, or Eurocom, which includes Eurocom Cellular Communication Ltd. - the official representative of Nokia cellular phones in Israel. The transaction is scheduled to be completed in April 2010. In January 2010, Ampal-American Israel Corporation, an Israeli company traded on the NASDAQ completed the purchase of Smile's on-going business, 32

through its indirect wholly owned subsidiary – 012 Smile Telecom Ltd, or Smile Telecom. MIRS, wholly owned by Motorola, had its license upgraded from push-to-talk to a cellular license in February 2001. To the best of our knowledge, in December 2009, Motorola has entered into an agreement for the sale of its holding in MIRS to the French businessman Mr. Patrick Derhy. Mr. Derhy has recently also purchased the controlling stake in HOT Telecom, or HOT, which provides multichannel pay-TV services and Internet, data and landline telephony services.

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

1986	Bezeq and Motorola create a joint venture called "Pelephone", which becomes Israel's first cellular operator. Pelephone launches N-AMPS services
1994	Cellcom awarded a license and launches TDMA services
1997	Cellcom introduces first pre-paid plan to the market
1998	Partner awarded a license and launches GSM services
1998	Pelephone launches CDMA services
2001	Ministry of Communications allocates additional 2G and 3G cellular frequencies for existing cellular operators and for the licensing of a new operator
2001	MIRS becomes Israel's fourth cellular operator with iDEN services
2002	Cellcom launches GSM/GPRS services
2003	Cellcom launches EDGE services
2004	Partner launches UMTS services Pelephone launches EVDO services
2006	Cellcom launches full scale UMTS/HSDPA services
2007	Partner launches HSDPA services
2008	Cellcom launches HSUPA services
2009	Pelephone launches UMTS/HSPA services

Key characteristics of the Israeli cellular services market

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

High cellular telephone penetration. The estimated penetration rate in Israel as of December 31, 2009 was 127%. Penetration rate is calculated by dividing the total number of subscribers by the Israeli population. The Israeli population does not include foreign workers and Palestinian subscribers who are included in the number of subscribers. The number of subscribers also includes subscribers with more than one subscription to a cellular network may also include subscribers to more than one network including those in the process of switching networks. As a result, the effective penetration rate after adjustment for these factors is likely to be lower than 127%.

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

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

High cellular voice usage. The average cellular voice usage per subscriber in Israel is well over 300 minutes per month, which is higher than the average cellular voice usage per subscriber in most developed economies using the pricing model of "calling party pays".

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

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

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

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

Low annual churn rates. The average annual churn rate in Israel in 2009 is estimated to be approximately 17-19%, which is lower than the churn rates in other developed economies. This churn rate reflects a slight increase in churn rate attributed to the implementation of number portability in December 2007 and the increased competition.

Landline Services

Voice Services

Bezeq operates approximately 2.5 million lines and provides local services. The second largest competitor in landline telephony services is HOT, a provider of cable TV services, which started landline operations in late 2003. HOT’s network has been upgraded to offer Internet, data and voice services.

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

Three players entered this market in 2006, including us. Partner entered this market in 2007 (and further intensified its efforts at the end of 2008) and Bezeq International (VOB only) entered this market in 2009, bringing to a total of seven players.

Broadband and Internet services

Israeli broadband services are characterized by high growth and high penetration levels. The Ministry of Communications estimates that at the end of 2008, there were

approximately 1.7 million subscribers, and the household penetration rate was approximately 82%. The dominant landline broadband access technologies are ADSL and cable. ADSL services were launched by Bezeq in 2000 and currently represent a 58% share of broadband connections. Cable modems, which account for the rest of the market, have been available since 2002. We offer similar services using cellular modem and router as well as data communication services over broadband.

Transmission and landline data services are provided by Bezeq, HOT, Partner (who acquired Med-1's operation in 2006) and us. These services are provided to business customers and to telecommunications operators. Bezeq and Hot are in the process of upgrading their network into high speed NGN. In February 2010, the Ministry of Communications provided a trial license to the Israeli Electric Company, allowing it to use its fiber optic infrastructure to provide transmission services to other operators. Landline services are also provided by Internet Gold and 013 NetVision Ltd., or Netvision, (an indirect subsidiary of IDB).

Internet access is currently provided by three major Internet service providers, or ISPs: Netvision, Bezeq International, Smile Telecom, and some other niche players. All those major providers are also suppliers of international voice services. Partner entered this market in December 2008.

International voice services

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

Multichannel television

The multichannel pay-TV market is also highly penetrated with levels above those of most developed economies. Multichannel pay-TV services are provided by HOT and by YES, a subsidiary of Bezeq. Regulatory change allowing digital terrestrial television (DTT) broadcasting, with trial broadcasting implemented in August 2009 and expected to be commercially launched in 2010, may affect the level of competition in this market and attract additional players.

Competitive Strengths

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

- Combination of leading market position and strong operational momentum. In 2009, we maintained our market-leading position, as reflected in our subscriber base, revenues from services, EBITDA and EBITDA margin growth, leveraging a series of brand, customer service and content initiatives, as well as -cost efficiencies initiatives regarding essential operational processes within our company.

- Strong and distinctive own brand. Our established brand enjoys strong recognition in Israel. We consider the enhancement of our image among consumers a top priority and continue to invest substantial resources to maintain Cellcom as a local cellular company with a warm personal touch. Our focus on music and music-related content services, which was broadened in 2009, to encompass versatile mobile media formats, such as music, games, video and data services under one marketing umbrella - "Cellcom Media", is our leading marketing theme, corresponding to our growing focus on content and data service growth .

- Transmission infrastructure and landline services. We have an advanced fiber-optic transmission infrastructure that consists of approximately 1,500 kilometers of inland fiber-optic cable, which, together with our complementary microwave-based infrastructure, connects the majority of our cell sites and provides for substantially all of our backhaul services. Our transmission infrastructure significantly reduces our operational reliance on Bezeq, the incumbent landline operator in Israel, while also saving us substantial infrastructure-leasing cash costs. As our transmission network has transmission and data capacity in excess of our own backhaul needs, and covers the majority of Israel's business parks, we offer transmission and data services to business customers and telecommunications providers. In addition, since July 2006, following the receipt of a landline transmission, data and telephony services license, we offer landline telephony services and as of February 2008, additional advanced landline services through our NGN system, to selected landline business customers.

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

- Strong management team. Since DIC acquired control of us in September 2005, we have put in place a team of seasoned managers with significant experience and solid track records in previous managerial positions. Our Chairman, Mr. Ami Erel, is a veteran of the Israeli communications market and previously served as the chief executive officer of Bezeq. Our chief executive officer, Mr. Amos Shapira, has been chief executive officer of Kimberly-Clark's Israeli subsidiary and of El Al Airlines, where he was credited with its successful restructuring and improvements in customer service. Our newly appointed chief financial officer, Mr. Heen, has held a variety of positions within our finance division, most recently as head of our economic department, responsible for our budget, financial analysis, cost accounting and control over our performance. Our VP Marketing, Mr. Adi Cohen had been marketing manager of Shufersal, Israel's largest retail chain, and previously, Partner's marketing manager. Under the leadership of Messrs. Erel, Shapira, Heen and Cohen, we have demonstrated significant improvements in our operating results and believe that we are well positioned to continue this trend and to execute our business strategy.

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

Business Strategy

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

- Focus on core business and synergetic complementary business. We remain focused on our primary source of business, mobile communications and value added services over our advanced cellular network, while continuing to develop new complementary business, which we identify to be both cost synergetic to our core business and provide direct contribution to our business, such as the landline services to the business community, provided over our fiber-optic cables and microwave links. We believe that our steadfast focus on our core competencies is one of the main factors for our market leading position and intend to identify and track opportunities as they arise, with a goal of continuing to generate long term growth.

- Maximize customer satisfaction, retention and growth. Our growth strategy is focused on retaining our subscribers, expanding the selection of services and products we offer to our subscribers and tailoring offers to our customers' needs, in order to enhance customer satisfaction and increase average revenues per user. We strive to be proactive at every service interaction with our customers, to offer a service which is as clear, simple and methodical as possible and to continually improve and enhance the flexibility of our customer service. In addition to providing quality customer service, we also strive to retain our subscribers and attract new subscribers by offering them advanced handsets, handset upgrades, attractive calling plans and value-added services.

- Grow and develop our Internet, content and data services. The usage of cellular content and data services in Israel is currently relatively low compared to western European countries, attributed to Israel launching 3G services two years after its European peers. We launched our UMTS network in 2006, over a year after our competitors. Since then we experienced a significant growth in content and value added services. . As of December 31, 2009 approximately 997,000 of our subscribers are 3G subscribers, mostly post paid. We believe that the "Open Garden" approach to content, offers significant growth potential for content and data revenues and are constantly looking out for new opportunities to maximize our advantages as an operator, and to maintain and further develop our share in the “Open Garden” content and data evolving market (for additional details regarding the “Open Garden” see “Item 4. Information on the Company – B. Business Overview" under "Competition”) .We intend to continue to invest in the improvement and upgrade of our high speed UMTS/HSPA network, mainly to enhance its capacity and increase its speed, in order to permit higher-quality and higher-speed multimedia content transmission.

We also plan to utilize our momentum in the arena of Israeli content to expand our content and data services, products and capabilities through in-house expertise and strategic relationships with leading cellular content providers, with special emphasis on original Israeli culture and usage enhancing content and applications in the cellular and complementary media. In 2009 we have launched our “Cellcom Media” initiative, following our “Cellcom Volume” music-related initiative, featuring, among other things, our cellular music store, original content including drama series and on-net-reality programs, video games, social networks applications, location based and other applications. The launch of "Cellcom Media" follows the success of our “Cellcom Volume” music-related initiative that contributed positively to our revenues, brand identity and popularity amongst users in general and youth in particular. We also continued marketing our data-enhancing products, including a cellular modem and a cellular router.

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

- Optimize our cost structure. We intend to continue our efforts to control costs so that we can improve profitability while also improving the quality of our services. In addition, having already built our own fiber-optic and microwave infrastructure, reduces our operating costs, as our network maintenance costs and microwave spectrum fees are lower than the lease costs to rent ba