

Cellcom Israel Ltd.
Form 6-K
May 30, 2018

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For May 30, 2018

Commission File Number: 001-33271

CELLCOM ISRAEL LTD.
10 Hagavish Street
Netanya, Israel 4250708

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

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-

ITEM 1

CELLCOM ISRAEL ANNOUNCES
FIRST QUARTER 2018 RESULTS

Cellcom Israel concludes the first quarter of 2018 with net income of NIS 7 million and EBITDA¹ of NIS 180 million.

Nir Sztern, Cellcom Israel CEO said:

"The strong growth trend of the fixed line segment also continued in this quarter. Fixed line revenues were up approximately 9% compared to the first quarter of 2017 and EBITDA of this segment reached NIS 68 million.

Cellcom Israel is the only Company in Israel that offers the quatro package. This advantage allows us to face the competition in the cellular segment, such that even as cellular prices decrease, we are successful in selling a complete communications package, and through this we increase total income per household."

First Quarter 2018 Highlights (compared to first quarter of 2017):

§ Total Revenues totaled NIS 933 million (\$265 million) compared to NIS 959 million (\$273 million) in the first quarter last year, a decrease of 2.7%

§ Service revenues totaled NIS 701 million (\$199 million) compared to NIS 739 million (\$210 million) in the first quarter last year, a decrease of 5.1%

§ Operating income totaled NIS 45 million (\$13 million) compared to NIS 67 million (\$19 million) in the first quarter last year, a decrease of 32.8%

§ Net income totaled NIS 7 million (\$2 million) compared to NIS 26 million (\$7 million) in the first quarter last year, a decrease of 73.1%

§ EBITDA¹ totaled NIS 180 million (\$51 million) compared to NIS 201 million (\$57 million) in the first quarter last year, a decrease of 10.4%

§ Net cash flow from operating activities totaled NIS 230 million (\$65 million) compared to NIS 77 million (\$22 million) in the first quarter last year², an increase of 198.7%

§ Free cash flow¹ totaled NIS 84 million (\$24 million) compared to NIS 66 million (\$19 million) in the first quarter last year, an increase of 27.3%

¹ Please see "Use of Non-IFRS financial measures" section in this press release.

² Net cash flow from operating activities for the first quarter of 2017, included a loan in an amount of NIS 130 million, which was provided to Golan Telecom according to the terms of the Network Sharing Agreement with Golan.

Nir Sztern, the Company's Chief Executive Officer, referred to the results of the first quarter of 2018:

"The strong growth trend of the fixed line segment also continued in this quarter. Fixed line segment revenues grew by approximately 9% compared to the first quarter of 2017 and the EBITDA from this segment reached NIS 68 million (61.9% growth from the same quarter last year).

We continued to broaden our TV services, adding 14,000 new subscribers to our service in the first quarter of 2018. Alongside the continued competition in the cellular segment, we continued to recruit new customers, among others, through a quatro package that offers cellular, television, internet and fixed line home telephony.

Cellcom Israel is the only Company in Israel that offers a quatro package. This advantage allows us to face the competition in the cellular segment, such that even as cellular prices decrease, we are successful in selling a complete communications package, and through this we increase total income per household. In the cellular segment, we finished the first quarter with an addition of 5,000 subscribers, all post-paid subscribers.

In this quarter also, we continued to lay down our fiber-optic infrastructure to the home, in order to make "Super Fiber", our fast and quality internet service, accessible to households, as part of our quatro, triple and bundle offerings.

Further, we continued to advance a possible investment in Israel Broadband Company (IBC) and after we issued a non-binding letter of intent and reached understanding with the Israeli Electric Company (IEC) regarding an update of IEC's services prices to IBC, if we invest in IBC, we conduct negotiations with IBC and its shareholders for investing in IBC. In the last few days, the Ministry of Communications published a hearing as to the reduction of the universal deployment to which IBC is bound by its license, the approval of which shall assist in advancing the negotiations among the parties.

We recently have been informed that, once again, the IDF (the Israeli Defense Forces) selected Cellcom Israel Group to be the cellular operator for the IDF soldiers for the coming three years. This win reflects, once again, the significant trust in Cellcom Israel's network as well as our high level of service, and we are very proud of it.

We continue to act in order to reduce the Company's expenses and examine various ways to become more efficient, in order to cope with the price erosion in the cellular segment. A few days ago we announced the launch of a voluntary retirement plan that will be another layer of streamlining the Company's expenses."

Shlomi Fruhling, Chief Financial Officer, said:

"During the first quarter of 2018 the erosion in revenues from cellular services continued as a result of the intensified competition in the market, as well as due to the change in the classification of the consideration from Golan as of the coming into force of the sharing agreement with Golan in the second quarter of 2017, compared to national roaming revenues in the same quarter last year. Despite the continued competition, we experienced a decrease in the churn rate of cellular subscribers as compared with the previous quarter and the same quarter last year. After the end of the quarter, Xfone launched its services as the 6th Mobile Network operator (MNO) in Israel, and since its entrance, we are experiencing an additional increase in the competition level in the market, reflected in an increased amount of transfers among the operators and a decrease in the pricing level in the market. The continuation of this trend is expected to negatively impact the Company's cellular segment results.

Our subscriber base in the TV and internet services continued to grow during the quarter, with most of the subscribers joining these services as part of our triple and quatro offering. Fixed line segment revenues grew by approximately 9% compared with the same quarter last year due to the continued growth in subscriber base and the classification of part of the consideration from the sharing agreement with Golan to the fixed line segment.

The free cash flow in the first quarter of 2018 reached NIS 84 million, a 27.3% increase compared to the same period last year. The increase in the free cash flow was mainly due to a reduction in payments to suppliers and was partially offset by a decrease in receipts from customers for services and end user equipment.

The Board of Directors decided not to distribute a dividend for the first quarter of 2018, in light of the intense competition in the market and its negative impact on the Company's results of operations and in order to continue to strengthen the Company's balance sheet. The board will review its decision in the future, taking into consideration developments in market conditions and the Company's needs."

Netanya, Israel – May 30, 2018 – Cellcom Israel Ltd. (NYSE: CEL; TASE: CEL) ("Cellcom Israel" or the "Company" or the "Group") announced today its financial results for the first quarter of 2018.

The Company reported that revenues for the first quarter of 2018 totaled NIS 933 million (\$265 million); EBITDA for the first quarter of 2018 totaled NIS 180 million (\$51 million), or 19.3% of total revenues; net income for the first quarter of 2018 totaled NIS 7 million (\$2 million). Basic earnings per share for the first quarter of 2018 totaled NIS 0.08 (\$0.02).

Main Consolidated Financial Results:

| | Q1/2018 | Q1/2017 | Change% | Q1/2018 | Q1/2017 |
|--------------------------------------|-------------|---------|---------|---|---------|
| | NIS million | | | US\$ million (convenience translation) | |
| Total revenues | 933 | 959 | (2.7)% | 265 | 273 |
| Operating Income | 45 | 67 | (32.8)% | 13 | 19 |
| Net Income | 7 | 26 | (73.1)% | 2 | 7 |
| Free cash flow | 84 | 66 | 27.3% | 24 | 19 |
| EBITDA | 180 | 201 | (10.4)% | 51 | 57 |
| EBITDA, as percent of total revenues | 19.3% | 21.0% | (8.1)% | | |

Main Financial Data by Operating Segments:

| | Cellular (*) | | | Fixed-line (**) | | | Consolidation adjustments (***) | | Consolidated results | | |
|--------------------------------------|--------------|-------|----------|-----------------|-------|----------|---------------------------------|-------|----------------------|-------|----------|
| NIS million | Q1'18 | Q1'17 | Change % | Q1'18 | Q1'17 | Change % | Q1'18 | Q1'17 | Q1'18 | Q1'17 | Change % |
| Total revenues | 630 | 692 | (9.0)% | 343 | 316 | 8.5% | (40) | (49) | 933 | 959 | (2.7)% |
| Service revenues | 437 | 509 | (14.1)% | 304 | 279 | 9.0% | (40) | (49) | 701 | 739 | (5.1)% |
| Equipment revenues | 193 | 183 | 5.5% | 39 | 37 | 5.4% | - | - | 232 | 220 | 5.5% |
| EBITDA | 112 | 159 | (29.6)% | 68 | 42 | 61.9% | - | - | 180 | 201 | (10.4)% |
| EBITDA, as percent of total revenues | 17.8% | 23.0% | (22.6)% | 19.8% | 13.3% | 48.9% | | | 19.3% | 21.0% | (8.1)% |

(*) The segment includes the cellular communications services, end user cellular equipment and supplemental services.

(**) The segment includes landline telephony services, internet infrastructure and connectivity services, television services, transmission services, end user fixed-line equipment and supplemental services.

(***) Include cancellation of inter-segment revenues between "Cellular" and "Fixed-line" segments.

Financial Review (first quarter of 2018 compared to first quarter of 2017):

Revenues for the first quarter of 2018 decreased 2.7% totaling NIS 933 million (\$265 million), compared to NIS 959 million (\$273 million) in the first quarter last year. The decrease in revenues is attributed to a 5.1% decrease in service revenues, which was partially offset by a 5.5% increase in equipment revenues.

Service revenues totaled NIS 701 million (\$199 million) in the first quarter of 2018, a 5.1% decrease compared to NIS 739 million (\$210 million) in the first quarter last year.

Service revenues in the cellular segment totaled NIS 437 million (\$124 million) in the first quarter of 2018, a 14.1% decrease compared to NIS 509 million (\$145 million) in the first quarter last year. This decrease resulted mainly from the ongoing erosion in the price of these services as a result of the competition in the cellular market and from the difference between the national roaming services revenues in the first quarter of 2017 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan Telecom Ltd. ("Golan", the "Network Sharing Agreement with Golan")³, which came into force as of the beginning of the second quarter of 2017.

Service revenues in the fixed-line segment totaled NIS 304 million (\$87 million) in the first quarter of 2018, a 9.0% increase compared to NIS 279 million (\$79 million) in the first quarter last year. This increase resulted mainly from fixed-line communications services provided according to the Network Sharing Agreement with Golan, as well as from an increase in revenues from TV and internet services.

Equipment revenues totaled NIS 232 million (\$66 million) in the first quarter of 2018, a 5.5% increase compared to NIS 220 million (\$63 million) in the first quarter last year. This increase resulted mainly from an increase in the amount of end user equipment sold in the cellular segment.

Cost of revenues for the first quarter of 2018 were similar to the first quarter of 2017 and totaled NIS 665 million (\$189 million). In the first quarter of 2018, there was an increase in cost of equipment, which resulted mainly from an increase in the quantity of end user equipment sold in the cellular segment and an increase in costs of TV services content and in costs related to internet services in the fixed-line segment, which were fully offset, mainly from Golan's participation in operating costs according to the Network Sharing Agreement with Golan, a decrease in depreciation expenses and a decrease in costs of extended warranty services for end user equipment.

Gross profit for the first quarter of 2018 totaled NIS 268 million (\$76 million), an 8.8% decrease compared to NIS 294 million (\$84 million) in the first quarter of 2017. Gross profit margin for the first quarter of 2018 amounted to 28.7%, down from 30.7% in the first quarter of 2017.

³ According to the terms of the Network Sharing Agreement with Golan, part of the consideration is recognized as revenues and part is recognized as a reduction of operation costs. In addition, revenues from the Network Sharing Agreement are divided between the cellular and fixed-line segments.

Selling, Marketing, General and Administrative Expenses ("SG&A Expenses") for the first quarter of 2018 decreased 1.8% to NIS 223 million (\$63 million), compared to NIS 227 million (\$65 million) in the first quarter of 2017. This decrease is primarily a result of a decrease in doubtful accounts expenses. This decrease was partially offset by an increase in amortization expenses of salaries and commissions expenses which were capitalized as part of the customer acquisition costs, as a result of early adoption of a new International Financial Reporting Standard (IFRS 15) as of the first quarter of 2017 (the "Adoption of IFRS15").

Operating income for the first quarter of 2018 decreased by 32.8% to NIS 45 million (\$13 million) from NIS 67 million (\$19 million) in the first quarter of 2017.

EBITDA for the first quarter of 2018 decreased by 10.4% to NIS 180 million (\$51 million), compared to NIS 201 million (\$57 million) in the first quarter of 2017. EBITDA as a percent of revenues for the first quarter of 2018 totaled 19.3%, down from 21.0% in the first quarter of 2017. The decrease in EBITDA is attributed to a 29.6% decrease in the cellular segment EBITDA, which was partially offset by a 61.9% increase in the fixed line segment EBITDA.

Cellular segment EBITDA for the first quarter of 2018 totaled NIS 112 million (\$32 million), compared to NIS 159 million (\$45 million) in the first quarter last year, a decrease of 29.6%, which resulted mainly from a decrease in service revenues as mentioned above, and from the difference between national roaming services revenues in the first quarter of 2017 and the revenues for rights of use in cellular networks according to the Network Sharing Agreement with Golan in the first quarter of 2018.

Fixed-line segment EBITDA for the first quarter of 2018 totaled NIS 68 million (\$19 million), compared to NIS 42 million (\$12 million) in the first quarter last year, a 61.9% increase, mainly as a result of an increase in revenues from fixed-line communications services provided according to the Network Sharing Agreement with Golan, and from an increase in activity in the internet and TV fields.

Financing expenses, net for the first quarter of 2018 increased by 6.5% and totaled NIS 33 million (\$10 million), compared to NIS 31 million (\$9 million) in the first quarter of 2017.

Net Income for the first quarter of 2018 totaled NIS 7 million (\$2 million), compared to NIS 26 million (\$7 million) in the first quarter of 2017, a 73.1% decrease.

Basic earnings per share for the first quarter of 2018 totaled NIS 0.08 (\$0.02), compared to NIS 0.25 (\$0.07) in the first quarter last year.

Operating Review

Main Performance Indicators - Cellular segment:

| | Q1/2018 | Q1/2017 | Change (%) |
|--|---------|---------|------------|
| Cellular subscribers at the end of period (in thousands) | 2,822 | 2,792 | 1.1% |
| Churn Rate for cellular subscribers (in %) | 9.5% | 12.0% | (20.8)% |
| Monthly cellular ARPU (in NIS) | 51.8 | 60.2 | (14.0)% |

Cellular subscriber base - at the end of the first quarter of 2018 the Company had approximately 2.822 million cellular subscribers. During the first quarter of 2018 the Company's cellular subscriber base increased by approximately 5,000 net cellular subscribers.

Cellular Churn Rate for the first quarter of 2018 totaled to 9.5%, compared to 12.0% in the first quarter last year.

The monthly cellular Average Revenue per User ("ARPU") for the first quarter of 2018 totaled NIS 51.8 (\$14.7), compared to NIS 60.2 (\$17.1) in the first quarter last year. The decrease in ARPU resulted mainly from the ongoing erosion in the prices of cellular services, resulting from the intensified competition in the cellular market and from the difference between national roaming services revenues in the first quarter of 2017 and the revenues for rights of use in cellular networks according to the Network Sharing Agreement with Golan in the first quarter of 2018.

Main Performance Indicators - Fixed-line segment:

| | Q1/2018 | Q1/2017 | Change (%) |
|--|---------|---------|------------|
| Internet infrastructure field subscribers - (households) at the end of period (in thousands) | 235 | 173 | 35.8% |
| TV field subscribers - (households) at the end of period (in thousands) | 184 | 124 | 48.4% |

In the first quarter of 2018, the Company's subscriber base in the internet infrastructure field increased by approximately 13,000 net households, and the Company's subscriber base in the TV field increased by 14,000 net households.

Financing and Investment Review

The Company's liquidity requirements relate primarily to working capital requirements, debt service, capital expenditures for the expansion and enhancement of its networks, end user equipment and payment of dividends, to the extent declared. The Company has historically funded these requirements through cash flows from operations and raising new debt. Going forward, the Company may also seek to fund these requirements through issuances of equity securities, including ordinary shares.

Cash Flow

Free cash flow for the first quarter of 2018, totaled NIS 84 million (\$24 million), compared to NIS 66 million (\$19 million) in the first quarter of 2017 (after elimination of a loan provided to Golan Telecom in the amount of NIS 130 million, as previously reported), a 27.3% increase. The increase in free cash flow, resulted mainly from decrease in payments to suppliers and was partially offset by a decrease in receipts from customers for services and end user equipment.

Total Equity

Total Equity as of March 31, 2018 amounted to NIS 1,414 million (\$402 million) primarily consisting of undistributed accumulated retained earnings of the Company.

Cash Capital Expenditures in Fixed Assets and Intangible Assets and others

During the first quarter of 2018, the Company invested NIS 146 million (\$42 million) in fixed assets and intangible assets and others (including, among others, investments in the Company's communications networks, information systems, software and TV set-top boxes and capitalization of part of the customer acquisition costs as a result of the adoption of IFRS 15), compared to NIS 140 million (\$40 million) in the first quarter 2017.

Dividend

On May 29, 2018, the Company's Board of Directors decided not to declare a cash dividend for the first quarter of 2018. In making its decision, the board of directors considered the Company's dividend policy and business status and decided not to distribute a dividend at this time, given the intensified competition and its adverse effect on the Company's results of operations, and in order to strengthen the Company's balance sheet. The board of directors will re-evaluate its decision in future quarters. No future dividend declaration is guaranteed and is subject to the Company's board of directors' sole discretion, as detailed in the Company's annual report for the year ended December 31, 2017 on Form 20-F dated March 26, 2018, or the 2017 Annual Report, under "Item 8 - Financial Information - A. Consolidated Statements and Other Financial Information - Dividend Policy".

Debentures, Material Loans and Financial Liabilities

For information regarding the Company's outstanding debentures as of March 31, 2018, see "Disclosure for Debenture Holders" section in this press release.

For information regarding the Company's material loans as of March 31, 2018, see "Aggregation of the Information regarding the Company's Material Loans" section in this press release.

For a summary of the Company's financial liabilities as of March 31, 2018, see "Disclosure for Debenture Holders" section in this press release.

Other developments during the first quarter of 2018 and subsequent to the end of the reporting period

Network Sharing Agreement

In April 2018, Marathon 018 Xfone Ltd., with which the Company entered a network sharing agreement, commenced operating in the Israeli cellular market.

For additional details, see the Company's 2017 Annual Report under "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business" and "Item 4. Information on the Company – B. Business Overview - Networks and Infrastructure - Cellular Segment- Network Sharing Agreements" and "- Competition – Cellular Segment".

Negotiations regarding Collective Employment Agreement and Voluntary Retirement Plan

The Company is in advanced stages of negotiations with its employees' representatives and the Histadrut (an Israeli union labor) regarding a new collective employment agreement, which the Company anticipates will be similar to the Company's previous collective employment agreement (which expired at the end of 2017) and will include certain nonmaterial additions.

In addition, in May 2018, the Group, in collaboration with the employees representatives, launched a new voluntary retirement plan for employees. As of the date of this report, the number of employees who will join the plan and the expense the Company will record with respect to this plan, are unknown.

For additional details including regarding the Company's previous collective employment agreement see the Company's 2017 Annual Report under "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – The unionizing of our employees may prevent us from executing necessary organizational and personnel changes, result in increased costs or disruption to our operation" and "Item 6. Directors, senior management and employees – D. Employees."

Regulation

In May 2018, the Ministry of Communications amended the Group's licenses to regulate the manner of response of call centers, including measurable parameters for response times. The amendment shall come into force in March 2019. The Company is studying the amendment and at this stage cannot estimate the amendment's effect on its results of operations.

For additional details see the Company's 2017 Annual Report under "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We operate in a heavily regulated industry, which can harm our results of operations. Regulation in Israel has materially adversely affected our results" and under "Item 4. Information on The Company – B. Business Overview – Government Regulations – Cellular Segment - Our Cellular License."

Conference Call Details

The Company will be hosting a conference call regarding its results for the first quarter of 2018 on Wednesday, May 30, 2018 at 10:00 am ET, 07:00 am PT, 15:00 UK time, 17:00 Israel time. On the call, management will review and discuss the results, and will be available to answer questions. To participate, please either access the live webcast on the Company's website, or call one of the following teleconferencing numbers below. Please begin placing your calls at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1 888 668 9141 UK Dial-in Number: 0 800 917 5108

Israel Dial-in Number: 03 918 0644 International Dial-in Number: +972 3 918 0644

at: 10:00 am Eastern Time; 07:00 am Pacific Time; 15:00 UK Time; 17:00 Israel Time

To access the live webcast of the conference call, please access the investor relations section of Cellcom Israel's website: www.cellcom.co.il. After the call, a replay of the call will be available under the same investor relations section.

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About Cellcom Israel

Cellcom Israel Ltd., established in 1994, is a leading Israeli communications group, providing a wide range of communications services. Cellcom Israel is the largest Israeli cellular provider, providing its approximately 2.822 million cellular subscribers (as at March 31, 2018) with a broad range of services including cellular telephony, roaming services for tourists in Israel and for its subscribers abroad, text and multimedia messaging, advanced cellular content and data services and other value-added services in the areas of music, video, mobile office etc., based on Cellcom Israel's technologically advanced infrastructure. The Company operates an LTE 4 generation network and an HSPA 3.5 Generation network enabling advanced high speed broadband multimedia services, in addition to GSM/GPRS/EDGE networks. Cellcom Israel offers Israel's broadest and largest customer service infrastructure including telephone customer service centers, retail stores, and service and sale centers, distributed nationwide. Cellcom Israel further provides OTT TV services (as of December 2014), internet infrastructure (as of February 2015) and connectivity services and international calling services, as well as landline telephone services in Israel. Cellcom Israel's shares are traded both on the New York Stock Exchange (CEL) and the Tel Aviv Stock Exchange (CEL). For additional information please visit the Company's website <http://investors.cellcom.co.il>.

Forward-Looking Statements

The following information contains, or may be deemed to contain forward-looking statements (as defined in the U.S. Private Securities Litigation Reform Act of 1995 and the Israeli Securities Law, 1968). In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about the Company, may include projections of the Company's future financial results, its anticipated growth strategies and anticipated trends in its business. These statements are only predictions based on the Company's current expectations and projections about future events. There are important factors that could cause the Company's 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. Factors that could cause such differences include, but are not limited to: changes to the terms of the Company's license, new legislation or decisions by the regulator affecting the Company's operations, new competition and changes in the competitive environment, the outcome of legal proceedings to which the Company is a party, particularly class action lawsuits, the Company's ability to maintain or obtain permits to construct and operate cell sites, and other risks and uncertainties detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission, including under the caption “Risk Factors” in its Annual Report for the year ended December 31, 2017.

Although the Company believes the expectations reflected in the forward-looking statements contained herein are reasonable, it cannot guarantee future results, level of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. The Company assumes no duty to update any of these forward-looking statements after the date hereof to conform its prior statements to actual results or revised expectations, except as otherwise required by law.

The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Unless noted specifically otherwise, the dollar denominated figures were converted to US\$ using a convenience translation based on the New Israeli Shekel (NIS)/US\$ exchange rate of NIS 3.514 = US\$ 1 as published by the Bank of Israel for March 31, 2018.

Use of non-IFRS financial measures

EBITDA is a non-IFRS measure and is defined as income before financing income (expenses), net; other income (expenses), net (excluding expenses related to employee voluntary retirement plans and gain (loss) due to sale of subsidiaries); income tax; depreciation and amortization and share based payments. This is an accepted measure in the communications industry. The Company presents this measure as an additional performance measure as the Company believes that it enables us to compare operating performance between periods and companies, net of any potential differences which may result from differences in capital structure, taxes, age of fixed assets and related depreciation expenses. EBITDA should not be considered in isolation, or as a substitute for operating income, any other performance measures, or cash flow data, which were prepared in accordance with Generally Accepted Accounting Principles as measures of profitability or liquidity. EBITDA does not take into account debt service requirements, or other commitments, including capital expenditures, and therefore, does not necessarily indicate the amounts that may be available for the Company's use. In addition, EBITDA as presented by the Company may not be comparable to similarly titled measures reported by other companies, due to differences in the way these measures are calculated. See the reconciliation of net income to EBITDA under "Reconciliation of Non-IFRS Measures" in the press release.

Free cash flow is a non-IFRS measure and is defined as the net cash provided by operating activities (including the effect of exchange rate fluctuations on cash and cash equivalents) excluding a loan to Golan Telecom, minus the net cash used in investing activities excluding short-term investment in tradable debentures and deposits and proceeds from sales of such debentures (including interest received in relation to such debentures) and deposits. See "Reconciliation of Non-IFRS Measures" below.

| <u>Company Contact</u> | <u>Investor Relations Contact</u> |
|--|--|
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Financial Tables Follow

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Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

| | March 31, 2017 | March 31, 2018 | Convenience translation into US dollar March 31, 2018 | December 31, 2017 |
|---|----------------|----------------|--|-------------------|
| | NIS millions | NIS millions | US\$ millions | NIS millions |
| Assets | | | | |
| Cash and cash equivalents | 589 | 593 | 169 | 527 |
| Current investments, including derivatives | 283 | 361 | 103 | 364 |
| Trade receivables | 1,293 | 1,276 | 363 | 1,280 |
| Current tax assets | 47 | 3 | 1 | 4 |
| Other receivables | 71 | 82 | 23 | 89 |
| Inventory | 67 | 69 | 19 | 70 |
| Total current assets | 2,350 | 2,384 | 678 | 2,334 |
| Trade and other receivables | 914 | 881 | 251 | 895 |
| Property, plant and equipment, net | 1,628 | 1,588 | 452 | 1,598 |
| Intangible assets and others, net | 1,230 | 1,271 | 362 | 1,260 |
| Deferred tax assets | 1 | 1 | - | - |
| Total non- current assets | 3,773 | 3,741 | 1,065 | 3,753 |
| Total assets | 6,123 | 6,125 | 1,743 | 6,087 |
| Liabilities | | | | |
| Current maturities of debentures and of loans from financial institutions | 709 | 565 | 161 | 618 |
| Trade payables and accrued expenses | 639 | 674 | 192 | 652 |
| Current tax liabilities | 1 | - | - | 4 |
| Provisions | 101 | 94 | 27 | 91 |
| Other payables, including derivatives | 243 | 255 | 72 | 277 |
| Total current liabilities | 1,693 | 1,588 | 452 | 1,642 |
| Long-term loans from financial institutions | 340 | 462 | 132 | 462 |
| Debentures | 2,511 | 2,487 | 708 | 2,360 |
| Provisions | 30 | 21 | 6 | 21 |
| Other long-term liabilities | 33 | 18 | 5 | 15 |
| Liability for employee rights upon retirement, net | 12 | 15 | 4 | 15 |
| Deferred tax liabilities | 137 | 120 | 34 | 131 |

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| | | | | |
|--|-------|-------|-------|-------|
| Total non- current liabilities | 3,063 | 3,123 | 889 | 3,004 |
| Total liabilities | 4,756 | 4,711 | 1,341 | 4,646 |
| Equity attributable to owners of the Company | | | | |
| Share capital | 1 | 1 | - | 1 |
| Cash flow hedge reserve | (1) | - | - | - |
| Retained earnings | 1,348 | 1,409 | 401 | 1,436 |
| Non-controlling interest | 19 | 4 | 1 | 4 |
| Total equity | 1,367 | 1,414 | 402 | 1,441 |
| Total liabilities and equity | 6,123 | 6,125 | 1,743 | 6,087 |

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Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Interim Statements of Income (Unaudited)

| | Three-month period ended March 31, | | Convenience translation into US dollar Three-month period ended March 31, | Year ended December 31, |
|---|------------------------------------|-------------|---|-------------------------|
| | 2017 NIS millions | 2018 | 2018 US\$ millions | 2017 NIS millions |
| Revenues | 959 | 933 | 265 | 3,871 |
| Cost of revenues | (665) | (665) | (189) | (2,680) |
| Gross profit | 294 | 268 | 76 | 1,191 |
| Selling and marketing expenses | (114) | (132) | (37) | (479) |
| General and administrative expenses | (113) | (91) | (26) | (426) |
| Other income, net | - | - | - | 11 |
| Operating profit | 67 | 45 | 13 | 297 |
| Financing income | 16 | 11 | 3 | 52 |
| Financing expenses | (47) | (44) | (13) | (196) |
| Financing expenses, net | (31) | (33) | (10) | (144) |
| Profit before taxes on income | 36 | 12 | 3 | 153 |
| Taxes on income | (10) | (5) | (1) | (40) |
| Profit for the period | 26 | 7 | 2 | 113 |
| Attributable to: | | | | |
| Owners of the Company | 25 | 7 | 2 | 112 |
| Non-controlling interests | 1 | - | - | 1 |
| Profit for the period | 26 | 7 | 2 | 113 |
| Earnings per share | | | | |
| Basic earnings per share (in NIS) | 0.25 | 0.08 | 0.02 | 1.11 |
| Diluted earnings per share (in NIS) | 0.25 | 0.08 | 0.02 | 1.10 |
| Weighted-average number of shares used in the calculation of basic earnings per share (in shares) | 100,604,795 | 101,044,557 | 101,044,557 | 100,654,935 |

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| | | | | |
|---|-------------|-------------|-------------|-------------|
| Weighted-average number of shares used in the calculation of diluted earnings per share (in shares) | 101,390,301 | 101,141,836 | 101,141,836 | 100,889,661 |
|---|-------------|-------------|-------------|-------------|

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Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

| | Three-month period ended March 31, | | Convenience translation into US dollar Three-month period ended March 31, 2018 US\$ millions | Year ended December 31, 2017 NIS millions |
|--|------------------------------------|-------|--|---|
| | 2017 | 2018 | | |
| | NIS millions | | | |
| Cash flows from operating activities | | | | |
| Profit for the period | 26 | 7 | 2 | 113 |
| Adjustments for: | | | | |
| Depreciation and amortization | 133 | 133 | 38 | 555 |
| Share based payments | 1 | 2 | - | 2 |
| Gain on sale of property, plant and equipment | - | - | - | (1) |
| Gain on sale of shares in a consolidated company | - | - | - | (10) |
| Income tax expense | 10 | 5 | 1 | 40 |
| Financing expenses, net | 31 | 33 | 10 | 144 |
| Changes in operating assets and liabilities: | | | | |
| Change in inventory | (3) | 1 | - | (6) |
| Change in trade receivables (including long-term amounts) | 60 | 15 | 5 | 132 |
| Change in other receivables (including long-term amounts) | (152) | 9 | 3 | (191) |
| Change in trade payables, accrued expenses and provisions | (11) | 31 | 8 | (27) |
| Change in other liabilities (including long-term amounts) | (6) | 5 | 1 | 28 |
| Payments for derivative hedging contracts, net | - | (2) | - | (3) |
| Income tax paid | (12) | (9) | (3) | (44) |
| Income tax received | - | - | - | 42 |
| Net cash from operating activities | 77 | 230 | 65 | 774 |
| Cash flows from investing activities | | | | |
| Acquisition of property, plant, and equipment | (93) | (99) | (28) | (346) |
| Additions to intangible assets and others | (47) | (47) | (13) | (237) |
| Change in current investments, net | 1 | (1) | - | (77) |
| Payments for other derivative contracts, net | (1) | - | - | - |
| Proceeds from sale of property, plant and equipment | - | - | - | 1 |
| Interest received | 4 | 4 | 1 | 12 |
| Proceeds from sale of shares in a consolidated company, net of cash disposed | - | - | - | 3 |
| Net cash used in investing activities | (136) | (143) | (40) | (644) |

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Interim Statements of Cash Flows (Unaudited) (cont`d)

| | | | Convenience translation into US dollar | |
|---|--|--------|---|----------------------------------|
| | Three-month period ended March 31, | | Three- month period ended March 31, | Year ended December 31, |
| | 2017 | 2018 | 2018 | 2017 |
| | NIS millions | | US\$ millions | NIS millions |
| Cash flows from financing activities | | | | |
| Payments for derivative contracts, net | - | - | - | (3) |
| Receipt of long-term loans from financial institutions | - | - | - | 200 |
| Repayment of debentures | (514) | (362) | (103) | (864) |
| Proceeds from issuance of debentures, net of issuance costs | - | 396 | 113 | - |
| Dividend paid | - | - | - | (1) |
| Interest paid | (78) | (55) | (16) | (175) |
| Net cash used in financing activities | (592) | (21) | (6) | (843) |
| Changes in cash and cash equivalents | (651) | 66 | 19 | (713) |
| Cash and cash equivalents as at the beginning of the period | 1,240 | 527 | 150 | 1,240 |
| Cash and cash equivalents as at the end of the period | 589 | 593 | 169 | 527 |

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Cellcom Israel Ltd.
(An Israeli Corporation)

Reconciliation for Non-IFRS Measures

EBITDA

The following is a reconciliation of net income to EBITDA:

| | Three-month period ended March 31, | | Convenience translation <u>into US</u> <u>dollar</u> | Year ended December 31, |
|-------------------------------|---------------------------------------|------|---|----------------------------------|
| | 2017 | 2018 | 2018 | 2017 |
| | NIS | | US\$ millions | NIS |
| | millions | | | millions |
| Profit for the period | 26 | 7 | 2 | 113 |
| Taxes on income | 10 | 5 | 1 | 40 |
| Financing income | (16) | (11) | (3) | (52) |
| Financing expenses | 47 | 44 | 13 | 196 |
| Other income | - | - | - | (1) |
| Depreciation and amortization | 133 | 133 | 38 | 555 |
| Share based payments | 1 | 2 | - | 2 |
| EBITDA | 201 | 180 | 51 | 853 |

Free cash flow

The following table shows the calculation of free cash flow:

| | Three-month period ended March 31, | | Convenience translation <u>into US</u> <u>dollar</u> | Year ended December 31, |
|--|---------------------------------------|-------|---|----------------------------------|
| | 2017 | 2018 | 2018 | 2017 |
| | NIS millions | | US\$ millions | NIS |
| | | | | millions |
| Cash flows from operating activities(*) | 77 | 230 | 65 | 774 |
| Loan to Golan Telecom | 130 | - | - | 130 |
| Cash flows from investing activities | (136) | (143) | (40) | (644) |
| Sale of short-term tradable debentures and deposits (**) | (5) | (3) | (1) | 65 |
| Free cash flow | 66 | 84 | 24 | 325 |

(*) Including the effects of exchange rate fluctuations in cash and cash equivalents.
(**) Net of interest received in relation to tradable debentures.

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Cellcom Israel Ltd.
(An Israeli Corporation)

Key financial and operating indicators

| NIS millions unless otherwise stated | Q1-2017 | Q2-2017 | Q3-2017 | Q4-2017 | Q1-2018 | FY-2017 |
|---|---------|---------|---------|---------|---------|---------|
| Cellular service revenues | 509 | 481 | 488 | 451 | 437 | 1,929 |
| Fixed-line service revenues | 279 | 292 | 292 | 303 | 304 | 1,166 |
| Cellular equipment revenues | 183 | 192 | 191 | 204 | 193 | 770 |
| Fixed-line equipment revenues | 37 | 39 | 47 | 59 | 39 | 182 |
| Consolidation adjustments | (49) | (42) | (43) | (42) | (40) | (176) |
| Total revenues | 959 | 962 | 975 | 975 | 933 | 3,871 |
| Cellular EBITDA | 159 | 158 | 160 | 118 | 112 | 595 |
| Fixed-line EBITDA | 42 | 79 | 66 | 71 | 68 | 258 |
| Total EBITDA | 201 | 237 | 226 | 189 | 180 | 853 |
| Operating profit | 67 | 102 | 83 | 45 | 45 | 297 |
| Financing expenses, net | 31 | 44 | 39 | 30 | 33 | 144 |
| Profit for the period | 26 | 45 | 32 | 10 | 7 | 113 |
| Free cash flow | 66 | 77 | 105 | 77 | 84 | 325 |
| Cellular subscribers at the end of period (in 000's) | 2,792 | 2,779 | 2,805 | 2,817 | 2,822 | 2,817 |
| Monthly cellular ARPU (in NIS) | 60.2 | 57.0 | 57.8 | 53.6 | 51.8 | 57.1 |
| Churn rate for cellular subscribers (%) | 12.0 % | 10.8 % | 11.5 % | 11.5 % | 9.5 % | 45.8 % |

Cellcom Israel Ltd.

Disclosure for debenture holders as of March 31, 2018Aggregation of the information regarding the debenture series issued by the Company⁽¹⁾, in million NIS

| Series | Original Issuance Date | Principal on the Date of Issuance | As of 31.03.2018 | | | | Debtenture Balance Value in Books ⁽²⁾ | Market Value | As of 29.05.2018 | | Interest Rate (fixed) | Pr R |
|------------------|---|-----------------------------------|----------------------------|--------------------------|-------------------------------|----------------------------|--|--------------|--------------------------|-------|-----------------------|------|
| | | | Principal Balance on Trade | Linked Principal Balance | Interest Accumulated in Books | Principal Balance on Trade | | | Linked Principal Balance | | | |
| F (4)(5)(6)** | 20/03/12 | 714.802 | 428.881 | 438.142 | 4.688 | 442.830 | 467.995 | 428.881 | 441.150 | 4.60% | 0% | |
| G (4)(5)(6) | 20/03/12 | 285.198 | 85.559 | 85.593 | 1.393 | 86.986 | 90.984 | 85.559 | 85.588 | 6.99% | 0% | |
| H (4)(5)(7)** | 08/07/14 03/02/15* 11/02/15* | 949.624 | 949.624 | 874.140 | 4.379 | 878.519 | 988.463 | 949.624 | 877.565 | 1.98% | 0% | |
| I (4)(5)(7)** | 08/07/14 03/02/15* 11/02/15* 30/03/16* | 804.010 | 804.010 | 776.532 | 7.752 | 784.284 | 882.803 | 804.010 | 777.590 | 4.14% | 0% | |

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| | | | | | | | | | | | |
|--------------------------|----------|-----------|-----------|-----------|--------|-----------|-----------|-----------|-----------|-------|---|
| J ⁽⁴⁾⁽⁵⁾ | 26/09/16 | 103.267 | 103.267 | 102.391 | 0.589 | 102.980 | 111.332 | 103.267 | 102.820 | 2.45% | 0 |
| K ^{(4)(5)(8)**} | 26/09/16 | 303.971 | 303.971 | 301.318 | 2.513 | 303.831 | 327.498 | 303.971 | 301.389 | 3.55% | 0 |
| L** | 23/01/18 | 400.600 | 400.600 | 396.487 | 1.811 | 398.298 | 398.397 | 400.600 | 396.555 | 2.50% | 0 |
| Total | | 3,561.472 | 3,075.912 | 2,974.603 | 23.125 | 2,997.728 | 3,267.472 | 3,075.912 | 2,982.657 | | |

Comments:

(1) For a summary of the terms of the Company's outstanding debentures see the Company's 2017 Annual Report under "Item 5. Operating and Financial Review and Prospects - B. Liquidity and Capital Resources - Debt Service - Public Debentures". In the reporting period, the Company fulfilled all terms of the debentures and Indentures. Debentures financial covenants - as of March 31, 2018 the net leverage (net debt to EBITDA excluding one time events ratio- see definition in the reference above to the Company's 2017 Annual Report) was 3.10. In the reporting period, no cause for early repayment occurred. (2) Including interest accumulated in the books. (3) Semi annual payments. (4) Regarding the debentures, the Company undertook not to create any pledge on its assets, as long as debentures or loans are not fully repaid, subject to certain exclusions. (5) Regarding the debentures - the Company has the right for early redemption under certain terms. (6) Regarding debenture Series F and G - in June 2013, following a second decrease of the Company's debenture rating since their issuance, the annual interest rate has been increased by 0.25% to 4.60% and 6.99%, respectively, beginning July 5, 2013. (7) In February 2015, pursuant to an exchange offer

of the Company's Series H and I debentures for a portion of the Company's outstanding Series D and E debentures, respectively, the Company exchanged approximately NIS 555 million principal amount of Series D debentures with approximately NIS 844 million principal amount of Series H debentures, and approximately NIS 272 million principal amount of Series E debentures with approximately NIS 335 million principal amount of Series I debentures. Series D and E debentures were fully repaid in July 2017 and in January 2017, respectively. (8) In June 2017, the Company undertook to issue NIS 220 million principle amount of additional series K debentures in July 1, 2018, under certain terms. See the Company's 2017 Annual Report, under "Item 5. Operating and Financial Review and Prospects - B. Liquidity and Capital Resources - Debt Service - Public Debentures".

(*) On these dates additional debentures of the series were issued, the information in the table refers to the full series.

(**) As of March 31, 2018, debentures Series F,H, I, K and L are material, which represent 5% or more of the total liabilities of the Company, as presented in the financial statements.

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Cellcom Israel Ltd.

Disclosure for debenture holders as of March 31, 2018 (cont`d)Debentures Rating Details*

| Series | Rating Company | Rating as of 31.03.2018 ⁽¹⁾ | Rating as of 29.05.2018 | Rating assigned upon issuance of the Series | Recent date of rating as of 29.05.2018 | Additional ratings between original issuance and the recent date of rating as of 29.05.2018 ⁽²⁾ | Rating |
|--------|----------------|--|-------------------------|---|--|--|-----------------------------|
| F | S&P Maalot | A+ | A+ | AA | 01/2018 | 05/2012, 11/2012, 06/2013, 06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018 | AA,AA-,A+ ⁽²⁾ |
| G | S&P Maalot | A+ | A+ | AA | 01/2018 | 05/2012, 11/2012, 06/2013, 06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018 | AA,AA-,A+ ⁽²⁾ |
| H | S&P Maalot | A+ | A+ | A+ | 01/2018 | 06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018 | A+ ⁽²⁾ |
| I | S&P Maalot | A+ | A+ | A+ | 01/2018 | 06/2014, 08/2014, 01/2015, 09/2015, 03/2016, 08/2016, 06/2017, 01/2018 | A+ ⁽²⁾ |
| J | S&P Maalot | A+ | A+ | A+ | 01/2018 | 08/2016, 06/2017, 01/2018 | A+ ⁽²⁾ |
| K | S&P Maalot | A+ | A+ | A+ | 01/2018 | 08/2016, 06/2017, 01/2018 | A+ ⁽²⁾ |
| L | S&P Maalot | A+ | A+ | A+ | 01/2018 | 01/2018 | A+ ⁽²⁾ |

(1) In January 2018, S&P Maalot affirmed the Company's rating of "ilA+/stable".

In May 2012, S&P Maalot updated the Company's rating from an "ilAA/negative" to an "ilAA-/negative". In November 2012, S&P Maalot affirmed the Company's rating of "ilAA-/negative". In June 2013, S&P Maalot updated the Company's rating from an "ilAA-/negative" to an "ilA+/stable". In June 2014, August 2014, January 2015, (2)September 2015, March 2016, August 2016, June 2017 and January 2018, S&P Maalot affirmed the Company's rating of "ilA+/stable". For details regarding the rating of the debentures see the S&P Maalot report dated August 22, 2017, included in the Company's Shelf offering Report filed in the Israeli Securities Authority website ("MAGNA") on January 22, 2018 .

* A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to suspension, revision or withdrawal at any time, and each rating should be evaluated independently of any other rating.

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Cellcom Israel Ltd.

Aggregation of the information regarding the Company's Material Loans ⁽¹⁾, in million NIS

| Loan | Provision Date | Principal Amount as of 31.03.2018 | Interest Rate (nominal) | Principal Repayment Dates (annual payments) | | Interest Repayment Dates (semi-annual payments) | Linkage |
|---------------------------------|----------------|-----------------------------------|-------------------------|---|----------|---|------------|
| | | | | From | To | | |
| Loan from financial institution | 06/2016 | 200 | 4.60% | 30.06.18 | 30.06.21 | June-30 and December-31, commencing December 31, 2016 through June 30, 2021 | Not linked |
| Loan from bank | 12/2016 | 140 | 4.90% | 30.06.18 | 30.06.22 | June-30 and December 30, commencing June 30, 2017 through June 30, 2022 | Not linked |
| Loan from financial institution | 06/2017 | 200 | 5.10% | 30.06.19 | 30.06.22 | June-30 and December-31, commencing December 31, 2017 through June 30, 2022 | Not linked |
| Total | | 540 | | | | | |

Comments:

(1) For a summary of the terms of the Company's loan agreements see the Company's 2017 Annual Report under "Item 5. Operating and Financial Review and Prospects - B. Liquidity and Capital Resources - Other Credit Facilities" and the reference therein to "- Debt Service - Public Debentures". (2) In the reporting period, the Company fulfilled all terms of the loan agreements. (3) Loan agreements financial covenants - as of March 31, 2018 the net leverage (net debt to EBITDA excluding one-time events ratio- see definition in the reference above to the Company's 2017 Annual Report) was 3.10. (4) In the reporting period, no cause for early repayment occurred. (5) In the loan agreements, the Company undertook not to create any pledge on its assets, as long as the loans are not fully repaid, subject to certain exclusions. (6) According to the loan agreements the Company may prepay the loans, subject to a prepayment fee. (7) In June 2017, the Company entered into an additional loan agreement with the lender of the Company's existing bank loan for the provision of a deferred loan in a principal amount of NIS 150 million in March 2019. See more information in the reference above to the Company's 2017 Annual Report.

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Cellcom Israel Ltd.

Summary of Financial Undertakings (according to repayment dates) as of March 31, 2018

Debentures issued to the public by the Company and held by the public, excluding such debentures held by the a. Company's parent company, by a controlling shareholder, by companies controlled by them, or by companies controlled by the Company, based on the Company's "Solo" financial data (in thousand NIS).

| | Principal payments | | | | | Gross interest payments (without deduction of tax) |
|-------------------|--------------------|-----------------------|------|--------|-------|--|
| | ILS linked to CPI | ILS not linked to CPI | Euro | Dollar | Other | |
| First year | 331,819 | 165,418 | - | - | - | 97,804 |
| Second year | 331,819 | 80,302 | - | - | - | 76,751 |
| Third year | 113,097 | 80,302 | - | - | - | 61,126 |
| Fourth year | 166,034 | 157,334 | - | - | - | 53,540 |
| Fifth year and on | 538,733 | 1,104,645 | - | - | - | 117,555 |
| Total | 1,481,502 | 1,588,001 | - | - | - | 406,776 |

Private debentures and other non-bank credit, excluding such debentures held by the Company's parent company, by b. a controlling shareholder, by companies controlled by them, or by companies controlled by the Company, based on the Company's "Solo" financial data (in thousand NIS).

| | Principal payments | | | | | Gross interest payments (without deduction of tax) |
|-------------------|--------------------|-----------------------|------|--------|-------|--|
| | ILS linked to CPI | ILS not linked to CPI | Euro | Dollar | Other | |
| First year | - | 50,000 | - | - | - | 18,241 |
| Second year | - | 100,000 | - | - | - | 14,655 |
| Third year | - | 100,000 | - | - | - | 9,812 |
| Fourth year | - | 100,000 | - | - | - | 4,955 |
| Fifth year and on | - | 50,000 | - | - | - | 1,264 |
| Total | - | 400,000 | - | - | - | 48,927 |

c. Credit from banks in Israel based on the Company's "Solo" financial data (in thousand NIS).

| | Principal payments | | | | | Gross interest payments (without deduction of tax) |
|-------------|--------------------|-----------------------|------|--------|-------|--|
| | ILS linked to CPI | ILS not linked to CPI | Euro | Dollar | Other | |
| First year | - | 28,000 | - | - | - | 6,154 |
| Second year | - | 28,000 | - | - | - | 4,800 |
| Third year | - | 28,000 | - | - | - | 3,430 |
| Fourth year | - | 28,000 | - | - | - | 2,056 |

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| | | | | | | |
|-------------------|---|---------|---|---|---|--------|
| Fifth year and on | - | 28,000 | - | - | - | 684 |
| Total | - | 140,000 | - | - | - | 17,124 |

d. Credit from banks abroad based on the Company's "Solo" financial data (in thousand NIS) - None.

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Cellcom Israel Ltd.

Summary of Financial Undertakings (according to repayment dates) as of March 31, 2018 (cont`d)

- e. Total of sections a - d above, total credit from banks, non-bank credit and debentures based on the Company's "Solo" financial data (in thousand NIS).

| | Principal payments | | | | | Gross interest payments (without deduction of tax) |
|-------------------|--------------------|-----------------------|------|--------|-------|--|
| | ILS linked to CPI | ILS not linked to CPI | Euro | Dollar | Other | |
| First year | 331,819 | 243,418 | - | - | - | 122,198 |
| Second year | 331,819 | 208,302 | - | - | - | 96,206 |
| Third year | 113,097 | 208,302 | - | - | - | 74,367 |
| Fourth year | 166,034 | 285,334 | - | - | - | 60,551 |
| Fifth year and on | 538,733 | 1,182,645 | - | - | - | 119,504 |
| Total | 1,481,502 | 2,128,001 | - | - | - | 472,826 |

- f. Out of the balance sheet Credit exposure based on the Company's "Solo" financial data - None.

g. Out of the balance sheet Credit exposure of all the Company's consolidated companies, excluding companies that are reporting corporations and excluding the Company's data presented in section f above (in thousand NIS) - None.

- h. Total balances of the credit from banks, non-bank credit and debentures of all the consolidated companies, excluding companies that are reporting corporations and excluding Company's data presented in sections a - d above (in thousand NIS) - None.

i. Total balances of credit granted to the Company by the parent company or a controlling shareholder and balances of debentures offered by the Company held by the parent company or the controlling shareholder (in thousand NIS) - None.

j. Total balances of credit granted to the Company by companies held by the parent company or the controlling shareholder, which are not controlled by the Company, and balances of debentures offered by the Company held by companies held by the parent company or the controlling shareholder, which are not controlled by the Company (in thousand NIS).

| | Principal payments | | | | | Gross interest payments (without deduction of tax) |
|-------------------|--------------------|-----------------------|------|--------|-------|--|
| | ILS linked to CPI | ILS not linked to CPI | Euro | Dollar | Other | |
| First year | 955 | 543 | - | - | - | 419 |
| Second year | 955 | 99 | - | - | - | 362 |
| Third year | 858 | 99 | - | - | - | 337 |
| Fourth year | 1,397 | 823 | - | - | - | 297 |
| Fifth year and on | 4,863 | 4,576 | - | - | - | 623 |
| Total | 9,028 | 6,140 | - | - | - | 2,038 |

- k. Total balances of credit granted to the Company by consolidated companies and balances of debentures offered by the Company held by the consolidated companies (in thousand NIS) - None.

ITEM 2

Cellcom Israel Ltd.
and Subsidiaries

Condensed Consolidated
Interim Financial Statements
As at March 31, 2018
(Unaudited)

Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Financial Statements as at March 31, 2018

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Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Financial position

| | March 31, 2017 | March 31, 2018 | Convenience translation into US dollar March 31, 2018 | December 31, 2017 |
|---|-----------------------------|-----------------------------|--|---------------------------|
| | NIS millions (Unaudited) | NIS millions (Unaudited) | US\$ millions (Unaudited) | NIS millions (Audited) |
| Assets | | | | |
| Cash and cash equivalents | 589 | 593 | 169 | 527 |
| Current investments, including derivatives | 283 | 361 | 103 | 364 |
| Trade receivables | 1,293 | 1,276 | 363 | 1,280 |
| Current tax assets | 47 | 3 | 1 | 4 |
| Other receivables | 71 | 82 | 23 | 89 |
| Inventory | 67 | 69 | 19 | 70 |
| Total current assets | 2,350 | 2,384 | 678 | 2,334 |
| Trade and other receivables | 914 | 881 | 251 | 895 |
| Property, plant and equipment, net | 1,628 | 1,588 | 452 | 1,598 |
| Intangible assets and others, net | 1,230 | 1,271 | 362 | 1,260 |
| Deferred tax assets | 1 | 1 | - | - |
| Total non- current assets | 3,773 | 3,741 | 1,065 | 3,753 |
| Total assets | 6,123 | 6,125 | 1,743 | 6,087 |
| Liabilities | | | | |
| Current maturities of debentures and of loans from financial institutions | 709 | 565 | 161 | 618 |
| Trade payables and accrued expenses | 639 | 674 | 192 | 652 |
| Current tax liabilities | 1 | - | - | 4 |
| Provisions | 101 | 94 | 27 | 91 |
| Other payables, including derivatives | 243 | 255 | 72 | 277 |
| Total current liabilities | 1,693 | 1,588 | 452 | 1,642 |
| Long-term loans from financial institutions | 340 | 462 | 132 | 462 |
| Debentures | 2,511 | 2,487 | 708 | 2,360 |
| Provisions | 30 | 21 | 6 | 21 |
| Other long-term liabilities | 33 | 18 | 5 | 15 |
| Liability for employee rights upon retirement, net | 12 | 15 | 4 | 15 |
| Deferred tax liabilities | 137 | 120 | 34 | 131 |

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| | | | | |
|--|-------|-------|-------|-------|
| Total non- current liabilities | 3,063 | 3,123 | 889 | 3,004 |
| Total liabilities | 4,756 | 4,711 | 1,341 | 4,646 |
| Equity attributable to owners of the Company | | | | |
| Share capital | 1 | 1 | - | 1 |
| Cash flow hedge reserve | (1) | - | - | - |
| Retained earnings | 1,348 | 1,409 | 401 | 1,436 |
| Non-controlling interest | 19 | 4 | 1 | 4 |
| Total equity | 1,367 | 1,414 | 402 | 1,441 |
| Total liabilities and equity | 6,123 | 6,125 | 1,743 | 6,087 |

Date of approval of the condensed consolidated financial statements: May 29, 2018.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Income

| | Three-month period ended March 31, | | Convenience translation into US dollar Three-month period ended March 31, | Year ended December 31, |
|---|------------------------------------|-------------|---|-------------------------|
| | 2017 | 2018 | 2018 | 2017 |
| | NIS millions (Unaudited) | | US\$ millions (Unaudited) | NIS millions (Audited) |
| Revenues | 959 | 933 | 265 | 3,871 |
| Cost of revenues | (665) | (665) | (189) | (2,680) |
| Gross profit | 294 | 268 | 76 | 1,191 |
| Selling and marketing expenses | (114) | (132) | (37) | (479) |
| General and administrative expenses | (113) | (91) | (26) | (426) |
| Other income, net | - | - | - | 11 |
| Operating profit | 67 | 45 | 13 | 297 |
| Financing income | 16 | 11 | 3 | 52 |
| Financing expenses | (47) | (44) | (13) | (196) |
| Financing expenses, net | (31) | (33) | (10) | (144) |
| Profit before taxes on income | 36 | 12 | 3 | 153 |
| Taxes on income | (10) | (5) | (1) | (40) |
| Profit for the period | 26 | 7 | 2 | 113 |
| Attributable to: | | | | |
| Owners of the Company | 25 | 7 | 2 | 112 |
| Non-controlling interests | 1 | - | - | 1 |
| Profit for the period | 26 | 7 | 2 | 113 |
| Earnings per share | | | | |
| Basic earnings per share (in NIS) | 0.25 | 0.08 | 0.02 | 1.11 |
| Diluted earnings per share (in NIS) | 0.25 | 0.08 | 0.02 | 1.10 |
| Weighted-average number of shares used in the calculation of basic earnings per share (in shares) | 100,604,795 | 101,044,557 | 101,044,557 | 100,654,935 |
| Weighted-average number of shares used in the calculation of diluted earnings per share (in shares) | 101,390,301 | 101,141,836 | 101,141,836 | 100,889,661 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Comprehensive Income

| | Three-month period ended March 31, | | Convenience translation into US dollar (Note 2D) Three-month period ended March 31, | Year ended December 31, |
|---|------------------------------------|--------------------------|--|-------------------------|
| | 2017 | 2018 | 2018 | 2017 |
| | NIS millions (Unaudited) | NIS millions (Unaudited) | US\$ millions (Unaudited) | NIS millions (Audited) |
| Profit for the period | 26 | 7 | 2 | 113 |
| Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to profit or loss | | | | |
| Changes in fair value of cash flow hedges transferred to profit or loss, net | - | - | - | 1 |
| Total other comprehensive income for the period that after initial recognition in | | | | |
| comprehensive income was or will be transferred to profit or loss, net of tax | - | - | - | 1 |
| Total other comprehensive income for the period, net of tax | - | - | - | 1 |
| Total comprehensive income for the period | 26 | 7 | 2 | 114 |
| Total comprehensive income attributable to: | | | | |
| Owners of the Company | 25 | 7 | 2 | 113 |
| Non-controlling interests | 1 | - | - | 1 |
| Total comprehensive income for the period | 26 | 7 | 2 | 114 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Changes in Equity

| | Attributable to owners of the Company | | | Non-controlling interests | Total equity | Convenience translation into US dollar (Note 2D) |
|---|---------------------------------------|-------------------|-------|---------------------------|--------------|--|
| | Share capital | Retained earnings | Total | | | |
| | NIS millions | | | | | US\$ millions |
| For the three-month period ended March 31, 2018 (Unaudited) | | | | | | |
| Balance as of January 1, 2018 (Audited) | 1 | 1,436 | 1,437 | 4 | 1,441 | 410 |
| Effect of initial application of IFRS 9* | - | (36) | (36) | - | (36) | (10) |
| Balance as of January 1, 2018 after initial application | 1 | 1,400 | 1,401 | 4 | 1,405 | 400 |
| Comprehensive income for the period | | | | | | |
| Profit for the period | - | 7 | 7 | - | 7 | 2 |
| Transactions with owners, recognized directly in equity | | | | | | |
| Share based payments | - | 2 | 2 | - | 2 | - |
| Balance as of March 31, 2018 (Unaudited) | 1 | 1,409 | 1,410 | 4 | 1,414 | 402 |
| | Attributable to owners of the Company | | | Non-controlling interests | Total equity | |
| | Share capital | Retained earnings | Total | | | |
| | NIS millions | | | | | |
| For the three-month period ended March 31, 2017 (Unaudited) | | | | | | |
| Balance as of January 1, 2017 (Audited) | 1 | (1) | 1,322 | 1,322 | 18 | 1,340 |
| Comprehensive income for the period | | | | | | |
| Profit for the period | - | - | 25 | 25 | 1 | 26 |
| Transactions with owners, recognized directly in equity | | | | | | |
| Share based payments | - | - | 1 | 1 | - | 1 |
| Balance as of March 31, 2017 (Unaudited) | 1 | (1) | 1,348 | 1,348 | 19 | 1,367 |

See Note 3, regarding Significant Accounting Policies - Application of a new standard effective January 1, 2018 -

*International Financial Reporting Standard 9 (2014), Financial Instruments ("IFRS 9" or "the standard"). According to the transitional method that was elected, comparative data were not restated.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Changes in Equity (cont'd)

| | Attributable to owners of the Company | | | Retained earnings | Non-controlling interests | Total equity |
|---|---------------------------------------|---------|-------|-------------------|---------------------------|--------------|
| | Share capital | Reserve | Total | | | |
| For the year ended December 31, 2017 (Audited) | | | | | | |
| Balance as of January 1, 2017 (Audited) | 1 | (1) | 1,322 | 1,322 | 18 | 1,340 |
| Comprehensive income for the year | | | | | | |
| Profit for the year | - | - | 112 | 112 | 1 | 113 |
| Other comprehensive income for the year, net of tax | - | 1 | - | 1 | - | 1 |
| Transactions with owners, recognized directly in equity | | | | | | |
| Share based payments | - | - | 2 | 2 | - | 2 |
| Derecognition of non-controlling interests due to loss of control in a consolidated company | - | - | - | - | (15) | (15) |
| Balance as of December 31, 2017 (Audited) | 1 | - | 1,436 | 1,437 | 4 | 1,441 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Cash Flows

| | Three-month period ended March 31, | | Convenience translation into US dollar (Note 2D) | Year ended December 31, |
|--|------------------------------------|-------|---|-----------------------------|
| | 2017 | 2018 | Three-month period ended March 31, 2018 US\$ millions (Unaudited) | 2017 NIS millions (Audited) |
| Cash flows from operating activities | | | | |
| Profit for the period | 26 | 7 | 2 | 113 |
| Adjustments for: | | | | |
| Depreciation and amortization | 133 | 133 | 38 | 555 |
| Share based payments | 1 | 2 | - | 2 |
| Gain on sale of property, plant and equipment | - | - | - | (1) |
| Gain on sale of shares in a consolidated company | - | - | - | (10) |
| Income tax expense | 10 | 5 | 1 | 40 |
| Financing expenses, net | 31 | 33 | 10 | 144 |
| Changes in operating assets and liabilities: | | | | |
| Change in inventory | (3) | 1 | - | (6) |
| Change in trade receivables (including long-term amounts) | 60 | 15 | 5 | 132 |
| Change in other receivables (including long-term amounts) | (152) | 9 | 3 | (191) |
| Change in trade payables, accrued expenses and provisions | (11) | 31 | 8 | (27) |
| Change in other liabilities (including long-term amounts) | (6) | 5 | 1 | 28 |
| Payments for derivative hedging contracts, net | - | (2) | - | (3) |
| Income tax paid | (12) | (9) | (3) | (44) |
| Income tax received | - | - | - | 42 |
| Net cash from operating activities | 77 | 230 | 65 | 774 |
| Cash flows from investing activities | | | | |
| Acquisition of property, plant, and equipment | (93) | (99) | (28) | (346) |
| Additions to intangible assets and others | (47) | (47) | (13) | (237) |
| Change in current investments, net | 1 | (1) | - | (77) |
| Payments for other derivative contracts, net | (1) | - | - | - |
| Proceeds from sale of property, plant and equipment | - | - | - | 1 |
| Interest received | 4 | 4 | 1 | 12 |
| Proceeds from sale of shares in a consolidated company, net of cash disposed | - | - | - | 3 |

Net cash used in investing activities (136) (143) (40) (644)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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Cellcom Israel Ltd. and Subsidiaries

Condensed Consolidated Interim Statements of Cash Flows (cont'd)

| | Three-month period ended March 31, 2017 2018 | | Convenience translation into US dollar (Note 2D) Three- month period ended March 31, 2018 US\$ millions (Unaudited) | Year ended December 31, 2017 NIS millions (Audited) |
|---|---|-------|---|--|
| | NIS millions (Unaudited) | | millions (Unaudited) | millions (Audited) |
| Cash flows from financing activities | | | | |
| Payments for derivative contracts, net | - | - | - | (3) |
| Receipt of long-term loans from financial institutions | - | - | - | 200 |
| Repayment of debentures | (514) | (362) | (103) | (864) |
| Proceeds from issuance of debentures, net of issuance costs | - | 396 | 113 | - |
| Dividend paid | - | - | - | (1) |
| Interest paid | (78) | (55) | (16) | (175) |
| Net cash used in financing activities | (592) | (21) | (6) | (843) |
| Changes in cash and cash equivalents | (651) | 66 | 19 | (713) |
| Cash and cash equivalents as at the beginning of the period | 1,240 | 527 | 150 | 1,240 |
| Cash and cash equivalents as at the end of the period | 589 | 593 | 169 | 527 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 1 - Reporting Entity

Cellcom Israel Ltd. ("the Company") is a company incorporated and domiciled in Israel and its official address is 10 Hagavish Street, Netanya 4250708, Israel. The condensed consolidated interim statements of the Group as at March 31, 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group operates and maintains a cellular mobile telephone system in Israel and provides cellular telecommunications services, landline telephony services, internet services, international calls services, television over the internet services (known as Over the Top TV services, or OTT TV services) and transmission services. The Company is controlled by Koor Industries Ltd., a wholly owned subsidiary of Discount Investment Corporation Ltd. ("DIC"), which is controlled by companies controlled by Mr. Eduardo Elsztein.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements as at and for the year ended December 31, 2017 (hereinafter - "the annual financial statements").

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on May 29, 2018.

B. Functional and presentation currency

These condensed consolidated financial statements are presented in New Israeli Shekels ("NIS"), which is the Group's functional currency, and are rounded to the nearest million. NIS is the currency that represents the primary economic environment in which the Group operates.

C. Basis of measurement

These condensed consolidated financial statements have been prepared on the basis of historical cost except for the following assets and liabilities: current investments and derivative financial instruments that are measured at fair value through profit or loss, deferred tax assets and liabilities, assets and liabilities in respect of employee benefits and provisions.

D. Convenience translation into U.S. dollars ("dollars" or "\$")

For the convenience of the reader, the reported NIS figures as of and for the three month period ended March 31, 2018, have been presented in dollars, translated at the representative rate of exchange as of March 31, 2018 (NIS 3.514 = US\$ 1.00). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

E. Use of estimates and judgments

The estimates and underlying assumptions that were applied in the preparation of these interim financial statements are consistent with those applied in the preparation of the annual financial statements.

Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 2 - Basis of Preparation (cont'd)

F. Exchange rates and known Consumer Price Indexes are as follows:

| | Exchange rates of US\$ | Consumer Price Index (points)* | | |
|--|------------------------------|---|-------|----|
| As of March 31, 2018 | 3.514 | 220.68 | | |
| As of March 31, 2017 | 3.632 | 220.24 | | |
| As of December 31, 2017 | 3.467 | 221.35 | | |
| Increase (decrease) during the period: | | | | |
| Three months ended March 31, 2018 | 1.36 | % | (0.30 |)% |
| Three months ended March 31, 2017 | (5.54 |)% | (0.20 |)% |
| Year ended December 31, 2017 | (9.83 |)% | 0.30 | % |

*According to 1993 base index.

Note 3 - Significant Accounting Policies

Except as described below, the accounting policies of the Group in these condensed consolidated interim financial statements are the same as those applied in the annual financial statements.

Below is a description of the essence of the change made in the accounting policies used in the condensed consolidated interim financial statement and its effect:

Application of a new standard effective January 1, 2018

IFRS 9 (2014), Financial Instruments

Effective January 1, 2018 the Group applied International Financial Reporting Standard 9 (2014), Financial Instruments ("IFRS 9" or "the standard"), which replaces International Accounting Standard 39, Financial Instruments: Recognition and Measurement (in this item "IAS 39").

According to the transitional method that was elected, comparative data were not restated with an adjustment to the balance of retained earnings and other components of equity as from January 1, 2018 (the date of initial application).

Presented hereunder are the principal changes in accounting policies following application of the standard as from January 1, 2018:

Financial Instruments

Non-derivative financial liabilities

Change in terms of debt instruments

An immaterial change of terms or exchange of financial liabilities that does not cause a derecognition, is measured by discounting the new cash flows at the original effective interest rate and the difference between the present value of the financial liabilities with the new terms, and the present value of the original financial liabilities is recognized in the statement of income as profit or loss.

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Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

Application of a new standard effective January 1, 2018 (cont'd)

IFRS 9 (2014), Financial Instruments (cont'd)

Impairment

Non-derivative financial assets

The Group recognizes a provision for expected credit losses in respect of financial assets at amortized cost. The Group measures the provision for expected credit losses at an amount equal to the full lifetime expected credit losses, other than the provisions hereunder that are measured at an amount equal to the 12-month expected credit losses:

- Debt instruments that are determined to have low credit risk at the reporting date; and
- Other debts instruments and deposits, for which credit risk has not increased significantly since initial recognition.

The Group has elected to measure the provision for expected credit losses in respect of trade and other receivables, at an amount equal to the full lifetime expected credit losses of the trade and other receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The effect on the condensed Consolidated Interim Statements of Financial position as at January 1, 2018:

| | According to the Effect of previous the According to IFRS 9 policy standard* to IFRS 9 NIS millions (Unaudited) | | |
|--|---|-------|----------|
| Trade and other receivables (including long-term amounts)* | 2,175 | (12) | 2,163 |
| Debentures, including current maturities** | (2,900) | (34) | (2,934) |
| Deferred tax liabilities | (131) | 10 | (121) |
| Retained earnings | (1,436) | 36 | (1,400) |

* As a result of applying IFRS 9, the allowance for doubtful debts increased due to measurement of expected credit losses for the full lifetime of the trade and other receivables.

** As a result of applying IFRS 9, the carrying amount of debentures whose terms were changed and for which a new effective interest rate was calculated at the time of the change in terms according to IAS 39, was recalculated from the date of the change in terms using the original effective interest rate.

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Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 4 - Operating Segments

The Group operates in two reportable segments, as described below, which are the Group's strategic business units. The strategic business unit's allocation of resources and evaluation of performance are managed separately. The operating segments were determined based on internal management reports reviewed by the Group's chief operating decision maker (CODM). The CODM does not examine assets or liabilities for those segments and therefore, they are not presented.

Cellular segment - the segment includes the cellular communications services, cellular equipment and supplemental services.

Fixed-line segment - the segment includes landline telephony services, internet services, television services, transmission services, landline equipment and supplemental services.

The accounting policies of the reportable segments are the same as described in the annual financial statements in Note 3, regarding Significant Accounting Policies.

| | Three-month period ended March 31, 2018 | | | | |
|----------------------------------|---|------------|--|--------------|---|
| | NIS millions | | | | |
| | (Unaudited) | | | | |
| | Cellular | Fixed-line | Reconciliation for consolidation | Consolidated | Reconciliation of subtotal Segment EBITDA to profit for the period |
| External revenues | 626 | 307 | - | 933 | |
| Inter-segment revenues | 4 | 36 | (40) | - | |
| Segment EBITDA* | 112 | 68 | | | 180 |
| Depreciation and amortization | | | | | (133) |
| Taxes on income | | | | | (5) |
| Financing income | | | | | 11 |
| Financing expenses | | | | | (44) |
| Share based payments | | | | | (2) |
| Profit for the period | | | | | 7 |

Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 4 - Operating Segments (cont'd)

Three-month period ended March 31, 2017
NIS millions
(Unaudited)

| | Cellular | Fixed-line | Reconciliation for consolidation | Consolidated | Reconciliation of subtotal Segment EBITDA to profit for the period |
|-------------------------------|----------|------------|--|--------------|---|
| External revenues | 688 | 271 | - | 959 | |
| Inter-segment revenues | 4 | 45 | (49) | - | |
| Segment EBITDA* | 159 | 42 | | | 201 |
| Depreciation and amortization | | | | | (133) |
| Taxes on income | | | | | (10) |
| Financing income | | | | | 16 |
| Financing expenses | | | | | (47) |
| Share based payments | | | | | (1) |
| Profit for the period | | | | | 26 |

Year ended December 31, 2017
NIS millions
(Audited)

| | Cellular | Fixed-line | Reconciliation for consolidation | Consolidated | Reconciliation of subtotal Segment EBITDA to profit for the year |
|-------------------------------|----------|------------|--|--------------|---|
| External revenues | 2,685 | 1,186 | - | 3,871 | |
| Inter-segment revenues | 14 | 162 | (176) | - | |
| Segment EBITDA* | 595 | 258 | | | 853 |
| Depreciation and amortization | | | | | (555) |
| Taxes on income | | | | | (40) |
| Financing income | | | | | 52 |
| Financing expenses | | | | | (196) |
| Other income | | | | | 1 |
| Share based payments | | | | | (2) |
| Profit for the year | | | | | 113 |

* Segment EBITDA as reviewed by the Group's CODM, represents earnings before interest (financing expenses, net), taxes, other income (expenses) (except for expenses in respect of voluntary retirement plans for employees, and gain (loss) due to sale of subsidiaries), depreciation and amortization and share based payments, as a measure of operating profit. Segment EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies.

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Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 5 - Debentures and Long-term Loans from Financial Institutions

In January 2018, the Company issued a new series of debentures, Series L debentures, in a principal amount of approximately NIS 401 million, at an interest rate of 2.5% per annum (annual effective interest rate of 2.66%). Series L debentures principal will be payable in six installments, of which the first four installments of 15% of the principal each will be paid on January 5 of the years 2023 through 2026, and the remaining two installments of 20% of the principal each will be paid on January 5 of the years 2027 and 2028. The interest on the outstanding principal of the Series L debentures is payable on January 5 of each of the years 2019 through 2028. The series was issued at par value (NIS 1,000 per unit). The total consideration received by the Company was approximately NIS 400 million (NIS 396 million, net of issuance expenses). The debentures (principal amount and interest) are without any linkage. The Series L debentures are unsecured and contain standard terms and conditions in addition to certain additional undertakings by the Company, generally similar to the terms of the Company's existing Series J and K debentures (for additional details, see Note 17 to the annual financial statements, regarding long-term loans from financial institutions), with a change to the additional interest to be paid in case of a two-notch downgrade in the debentures' credit rating to 0.5% (with no change to the maximum additional interest).

Note 6 - Financial Instruments

Fair value

(1) Financial instruments measured at fair value for disclosure purposes only

The book value of certain financial assets and liabilities, including cash and cash equivalents, trade and other receivables, current investments, including derivatives, trade and other payables, including derivatives and other long-term liabilities, are equal or approximate to their fair value.

The fair values of the remaining financial liabilities and their book values as presented in the consolidated statements of financial position are as follows:

| | March 31, 2017 | | 2018 | | December 31, 2017 | |
|---|-------------------|---------------|---------------|---------------|----------------------|----------------|
| | Book value | Fair value | Book value | Fair value | Book value | Fair value* |
| | NIS millions | | NIS millions | | NIS millions | |
| Debentures including current maturities and accrued interest | (3,260) | (3,578) | (2,998) | (3,267) | (2,954) | (3,288) |
| Long-term loans from financial institutions including current maturities and accrued interest | (344) | (360) | (546) | (586) | (540) | (574) |

* The fair value as of December 31, 2017, includes principal and interest in a total sum of approximately NIS 418 million, paid in January 2018.

Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 6 - Financial Instruments (cont'd)

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, using a valuation method in accordance with the fair value hierarchy level. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data (unobservable inputs).

| | March 31, 2018 | | | Total |
|---|----------------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | |
| | NIS millions | | | |
| Financial assets at fair value through profit or loss | | | | |
| Current investments in debt securities and shares | 356 | - | - | 356 |
| Derivatives | - | 5 | - | 5 |
| Total assets | 356 | 5 | - | 361 |
| Financial liabilities at fair value | | | | |
| Derivatives | - | (16) | - | (16) |
| Total liabilities | - | (16) | - | (16) |
| | March 31, 2017 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS millions | | | |
| Financial assets at fair value through profit or loss | | | | |
| Current investments in debt securities | 279 | - | - | 279 |
| Derivatives | - | 4 | - | 4 |
| Total assets | 279 | 4 | - | 283 |
| Financial liabilities at fair value | | | | |
| Derivatives | - | (21) | - | (21) |
| Total liabilities | - | (21) | - | (21) |

Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 6 - Financial Instruments (cont'd)

(2) Fair value hierarchy of financial instruments measured at fair value (cont'd)

| | December 31, 2017 | | | Total |
|---|-------------------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | |
| | NIS millions | | | |
| Financial assets at fair value through profit or loss | | | | |
| Current investments in debt securities and shares | 361 | - | - | 361 |
| Derivatives | - | 3 | - | 3 |
| Total assets | 361 | 3 | - | 364 |
| Financial liabilities at fair value | | | | |
| Derivatives | - | (18) | - | (18) |
| Total liabilities | - | (18) | - | (18) |

During the reporting period, there have been no transfers between Levels 1 and 2.

(3) Valuation methods to determine fair value

Foreign currency options - fair value is measured based on the Black-Scholes formula.

Forward contracts - fair value is measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustments required for the parties' credit risks.

Note 7 - Revenues

Composition

| | Three months ended March 31, 2017 | Three months ended March 31, 2018 | Year ended December 31, 2017 |
|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------|
| Revenues from equipment | 220 | 232 | 952 |
| Revenues from services: | | | |
| Cellular services | 469 | 400 | 1,777 |
| Land-line communications services | 234 | 267 | 1,004 |
| Other services | 36 | 34 | 138 |
| Total revenues from services | 739 | 701 | 2,919 |

| | | | |
|----------------|-----|-----|-------|
| Total revenues | 959 | 933 | 3,871 |
|----------------|-----|-----|-------|

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Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 8 - Commitments

In April 2018, after the end of the reporting period, Marathon 018 Xfone Ltd., with which the Company entered a network sharing and hosting agreement, commenced operating in the Israeli cellular market. For additional details, see Note 30(D) to the annual financial statements, regarding Commitments.

Note 9 - Contingent Liabilities

In the ordinary course of business, the Group is involved in various lawsuits against it. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, while events that occur in the course of the litigation may require a reassessment of this risk. The Group's assessment of risk is based both on the advice of its legal counsels and on the Group's estimate of the probable settlements amounts that are expected to be incurred, if such settlements will be agreed by both parties. The provision recorded in the condensed consolidated interim financial statements as of March 31, 2018 in respect of all lawsuits against the Group amounts to approximately NIS 48 million.

Described hereunder are details regarding new purported class actions which have been added during the reporting period or updates on lawsuits which were included in the annual financial statements. The amounts presented below are calculated based on the claims amounts as of the date of their submission to the Group and refer to the sum estimated by the plaintiffs, if the lawsuit is certified as a class action.

Consumer claims

In the ordinary course of business, lawsuits have been filed against the Group by its customers. These are mostly requests for approval of class action lawsuits, particularly concerning allegations of illegal collection of funds, unlawful conduct or breach of license, or a breach of agreements with customers, causing monetary and non-monetary damage to them. During the reporting period, seven purported class actions have been filed against the Group (five of which were included in Note 31(A) to the annual financial statements): four purported class actions with aggregate amounts claimed estimated by the plaintiffs of approximately NIS 89 million, a purported class action for a sum estimated by the plaintiffs of tens of millions of NIS, and two purported class action against the Group and other defendants together, in which the aggregate amounts claimed were estimated by the plaintiffs to be approximately NIS 69 million, without specifying the amount claimed from the Group. At this early stage it is not possible to assess their chances of success.

During the reporting period, three purported class actions (which were reported as dismissed in Note 31(A) to the annual financial statements), were concluded: two purported class actions against the Group, with aggregate amounts claimed estimated by the plaintiffs of approximately NIS 160 million and another purported class action against the Group for which the amount claimed from the Group was not specified.

In February 2018, the Company appealed the approval of allegation to the Supreme Court on District Court decision from December 2017, to certify as a class action, a lawsuit filed against the Company in May 2015, relating to an allegation that the Company unlawfully charged some of its subscribers for call details reports and the plaintiffs appealed the dismissal of other allegations. The total amount claimed was not estimated by the plaintiffs.

Cellcom Israel Ltd. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

Note 9 - Contingent Liabilities (cont'd)

Consumer claims (cont'd)

In April 2018, after the end of the reporting period, a request to certify a lawsuit filed against the Company in December 2014 was approved as class action, relating to an allegation that the Company unlawfully charged subscribers who disconnected from the Company's services during a certain billing month for the full month. The total amount claimed was not estimated by the plaintiff.

After the end of the reporting period, ten purported class actions were filed against the Group: four purported class actions with aggregate amounts claimed estimated by the plaintiffs to be approximately NIS 273 million, three purported class actions in which the amount claimed if certified as class actions was not quantified, a purported class action against the Group and other defendants together, in which the amount claimed if certified as class action was not quantified, and two purported class actions with aggregate amounts claimed estimated by the plaintiffs to be approximately NIS 73 million were filed against the Group and other defendants together, for which the amount claimed from the Group was not specified. At this early stage, it is not possible to assess their chances of success.

After the end of the reporting period, three purported class actions against the Group in a total amount estimated by the plaintiffs to be approximately NIS 492 million, were concluded.

Note 10 - Subsequent Event

In May 2018, after the end of the reporting period, the Group in collaboration with the employees representatives, launched a new voluntary retirement plan for employees. As of the financial statements signing date, the number of employees who will join the plan and the expense the Company will record with respect to this plan, are unknown.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CELLCOM ISRAEL LTD.

Date: May 30, 2018 By: /s/ Liat Menahemi Stadler
Name: Liat Menahemi Stadler
Title: VP Legal and Corporate Secretary
