Cellcom Israel Ltd.
Form 20-F
March 06, 2014

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

FORM 20–F

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

OR

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

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

Commission file number 001-33271

CELLCOM ISRAEL LTD.

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

ISRAEL

(Jurisdiction of incorporation or organization)

10 Hagavish Street, Netanya 42140, Israel

(Address of principal executive offices)

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2013, the Registrant had outstanding 99,531,604 Ordinary Shares, par value NIS 0.01 per share.

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

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

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

Indicate by check mark whether the Registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)

[ ] Yes [ ] No

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

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

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

U.S. GAAP [ ]

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

Other [ ]

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

Item 17 [ ]

Item 18 [ ]

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

2

TABLE OF CONTENTS

3

Table of Contents

INTRODUCTION

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

Presentation of Financial and Share Information

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

Unless we indicate otherwise, U.S. dollar translations of the NIS amounts presented in this annual report are translated for the convenience of the reader using the rate of NIS 3.471 to $1.00, the representative rate of exchange as of December 31, 2013 as published by the Bank of Israel. The translation is for the convenience of the reader only, and it does not represent the fair value of the translated assets and liabilities.

Trademarks

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

Industry and Market Data

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

Special Note Regarding Forward-Looking Statements

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

Table of Contents

achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled “Item 3. Key Information - D. Risk Factors.” You should specifically consider the numerous risks outlined under “Item 3. Key Information - D. Risk Factors.”

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

PART I

ITEM 1.IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

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

The selected data presented below under the captions “Income Statement Data” and “Balance Sheet Data” for, and as of the end of, each of the years in the five-year period ended December 31, 2013, are derived from the consolidated financial statements of Cellcom Israel Ltd. and subsidiaries, which financial statements have been audited by Somekh Chaikin, an independent registered public accounting firm and a member firm of KPMG International. The consolidated financial statements as of December 31, 2012 and 2013, and for each of the years in the three-year period ended December 31, 2013, and the report thereon, are included elsewhere in this annual report. The selected data should be read in conjunction with the consolidated financial statements, the related notes, and the independent registered public accounting firm’s report and the convenience translation of the consolidated financial statements as of and for the year ended December 31, 2013 into U.S. dollars solely for the convenience of the reader.

On August 31, 2011, we completed the acquisition of 100% of the share capital of Netvision Ltd., or Netvision. Therefore, the consolidated results for the year ended December

Table of Contents

31, 2011, included elsewhere in this annual report, include Netvision's results for the months of September through December 2011 only.

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

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented at December 31, 2013, translated using the rate of NIS 3.471 to $1.00, the representative rate of exchange on December 31, 2013 as published by the Bank of Israel.

	Year Ended December 31,					
	2009	2010	2011(1)	2012	2013	2013
	(In NIS millions, except per share data)					(In US$ millions)
Income Statement Data:						
Revenues	6,483	6,662	6,506	5,938	4,927	1,419
Cost of revenues	3,333	3,322	3,408	3,463	2,990	861
Selling and marketing expenses	716	756	990	865	717	206
General and administrative expenses	660	641	685	629	570	164
Other (income) expenses, net	6	5	1	(4)	(1)	-
Operating income	1,768	1,938	1,422	985	651	188
Financing expense, net	219	230	293	259	246	71
Income tax	367	417	304	195	117	34
Net income	1,182	1,291	825	531	288	83
Basic earnings per share	12.01	13.04	8.28	5.34	2.89	0.83
Diluted earnings per share	11.90	12.98	8.28	5.33	2.86	0.82
Weighted average ordinary shares used in calculation of basic earnings per share	98,432,757	98,979,544	99,476,671	99,481,487	99,495,525	
Weighted average ordinary shares used in calculation of diluted earnings per share	99,306,714	99,480,791	99,511,433	99,609,722	100,319,724	
Other Data:						
EBITDA(2)	2,529	2,667	2,167	1,753	1,335	385
Capital expenditures	663	735	520	537	384	111
Dividends declared per share	11.91	13.85	7.88	1.31	0.85	0.24
Net cash from operating activities	2,080	2,380	1,332	1,641	1,556	448

Net cash used in investing activities	(774)	(889)	(1,656)	(708)	(344)	(99)
Net cash from (used in) financing activities	(678)	(1,861)	715	(439)	(1,569)	(452)
Cellular Subscribers (in thousands)(3)	3,292	3,394	3,349	3,199	3,092	
Churn rate of cellular subscribers(4)	19.6%	20.5%	25.1%	31.5%	36.8%	
Cellular ARPU (in NIS)(5)	144	144	106	88	78	23
Balance Sheet Data:						
Cash	903	533	920	1,414	1,057	305
Working capital	1,254	924	679	1,232	1,082	312
Total assets	6,379	5,996	8,557	8,787	7,579	2,183
Total equity	374	341	187	500	710	205

(1) The consolidated financial results for the year ended December 31, 2011 include the results of Netvision, our wholly owned subsidiary, for the months September through December 2011. We consummated the acquisition of Netvision on August 31, 2011. For further details regarding the Netvision acquisition, see "Item 4. A – Acquisition of Netvision during 2011". For further details regarding the effect of Netvision's financial results on our consolidated financial results, see Item "5. A - Operating and Financial Review and Prospects".

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

The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,					
	2009	2010	2011	2012	2013	2013
	(In NIS millions)					(In US$ millions)
Net income	1,182	1,291	825	531	288	83
Financing expense, net	219	230	293	259	246	71
Other expenses (income), net	6	5	1	(4)	(1)	-
Taxes on income	367	417	304	195	117	34
Depreciation and amortization	755	724	738	765	676	195
Share based payments	-	-	6	7	9	2
EBITDA	2,529	2,667	2,167	1,753	1,335	385

(3) Cellular subscriber data refers to active subscribers. We use a six-month method of calculating our cellular subscriber base, which means that we deduct subscribers from our subscriber base after six months of no revenue generation and activity on our network by or in relation to the post-paid subscribers and no revenue generating calls or SMS for pre-paid subscribers. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel. During the fourth quarter of 2011, we removed approximately 52,000 subscribers from our subscribers base, which included subscribers using our TDMA network who had not requested a transfer to our other networks following the shutdown of our TDMA network as of December 31, 2011, and subscribers who ceased using our services following a change to our policy which previously allowed subscribers to change from post to prepaid subscription as a result of the reduction of Early Termination Fees, in the cellular market in early 2011. These changes affected other key performance indicators. In the fourth quarter of 2012 we removed approximately 138,000 M2M (machine to machine) subscribers from our subscriber base, following an addition of a revenue generation criterion of at least NIS 1 of accumulated revenues over the six months period, for M2M subscribers, to our cellular subscribers calculation policy. This means that any M2M subscriber generating less than NIS 1 of accumulated revenues or unable to reach that sum contractually, will not be counted as a subscriber. This change had an immaterial effect on our ARPU for 2012. In the fourth quarter of 2013, we removed approximately 64,000 subscribers from our subscribers base, following a change to our prepaid subscribers counting mechanism. As a result of such change, we add a prepaid subscriber to our subscribers base only upon charging a prepaid card and remove them from our subscribers base after six months of no revenue generating calls or SMS. Following each of these changes, we have not restated prior subscriber data to conform with this change.

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

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

Table of Contents

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

	Year Ended December 31, 2009	2010	2011	2012	2013	2013 (In US$ millions)
	(In NIS millions, except number of subscribers and months)					
Revenues	6,483	6,662	6,506	5,938	4,927	1,419
less revenues from equipment sales	751	802	1,747	1,356	942	271
less other revenues*	162	124	484	1,125	1,034	298
Revenues used in cellular ARPU calculation	5,570	5,736	4,275	3,457	2,951	850
Average number of cellular subscribers	3,215,492	3,322,891	3,361,803	3,291,843	3,135,857	3,135,857
Months during period	12	12	12	12	12	12
Cellular ARPU (in NIS, per month)	144	144	106	88	78	23

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

Exchange Rate Information

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

Month	High (NIS)	Low (NIS)
September 2013	3.632	3.504
October 2013	3.567	3.518
November 2013	3.569	3.519
December 2013	3.530	3.471
January 2014	3.507	3.483
February 2014	3.549	3.496

On March 3, 2014 the daily representative rate of exchange between the NIS and U.S. dollar as published by the Bank of Israel was NIS 3.492 to $1.00.

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

Year	Average (NIS)
2009	3.927
2010	3.732
2011	3.582
2012	3.844

2013	3.601

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

Table of Contents

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Related to our Business

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

A substantial part of our operations is subject to the Israeli Communications Law, 1982, the Israeli Wireless Telegraph Ordinance (New Version), 1972, the regulations promulgated thereunder and the licenses for the provision of different telecommunications services that we received from the Ministry of Communications in accordance with the Communications Law. The interpretation and implementation of the Communications Law, Wireless Telegraph Ordinance and regulations and the provisions of our general licenses, as well as our other licenses, are not certain and subject to change, and disagreements have arisen and may arise in the future between the Ministry of Communications, or MOC, and us. The Communications Law and regulations thereunder grant the Ministry of Communications extensive regulatory and supervisory authority with regard to our activities, as well as the authority to impose substantial sanctions in the event of a breach of our licenses or the applicable laws and regulations. In 2013, the MOC substantially increased its supervision activities and imposed monetary sanctions, including on us (in immaterial sums).Substantial sanctions would negatively affect our results of operations and reputation. Further, in the event that we materially violate the terms of our licenses, the Ministry of Communications has the authority to revoke them.

Our operations are subject to regulatory and supervisory authority of other Israeli regulators which also includes the authority to impose criminal and administrative sanctions against us including, among others, the Ministry of Environmental Protection; the Antitrust Authority; the Ministry of Justice and the Law, Information and Technology Authority at the Ministry of Justice - in charge of issues such as data bases and privacy protection; the Ministry of Economy (including the Fair Trade Authority) in charge of labor and consumer protection; the Israeli Securities Authority; and the Israeli Securities Law Administrative Enforcement Committee, which recently commenced operating and has imposed substantial monetary sanctions. We have witnessed increased activity by some of these regulators in recent years. We expect this trend to continue. Substantial sanctions or criminal charges by any of these regulators or others, would negatively affect our results of operations and our reputation. Increased supervision and regulation of our activities could limit our freedom to conduct our business and harm our results of operations.

Our general cellular license is valid until February 2022. It may be extended for additional six-year periods upon our request to the Ministry of Communications and

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

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

- do not approve the network and site sharing agreements we entered in December 2013 with Pelephone communications Ltd., or Pelephone, and Golan Telecom Ltd., or Golan, our competitors, or approve them subject to conditions that are adverse to us, as it would prevent or significantly undermine the material savings in investments and expenditures that would be available to us if the agreements are approved; more so if the regulators do approve a similar agreement between Partner Communications Ltd., or Partner and Hot Mobile Ltd., or Hot Mobile, additional competitors, entered November 2013, or similar agreement among our competitors, or provide such approval on an earlier date than for our agreements or under more lenient terms than our agreement, as such decisions will put us in a disadvantage vis-à-vis our competitors and will have a material adverse effect on our results of operations. For additional details, see "- We face intense competition in all aspects of our business" and "We may be adversely affected by the significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business" below and "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements" and "-Competition";

- reduce tariffs, or otherwise intervene in the pricing policies for our products and services, including by: intervening in pricing of bundles of services, roaming services, or prohibiting subscription or other fees for certain services. For example, the amendment to the Communications Law in 2013 prohibiting cellular operators from linking a cellular services transaction and handset purchase transaction, including by way of offering airtime rebates or refunds for the handsets, has adversely affected our end-user equipment revenues and our results of operations; and the MOC's November 2013 instruction to discontinue any specific rebates and refunds to customers transferring from other cellular operators, has and is expected to continue to adversely affect our sales and our results of operations. See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Tariff Supervision" and

"Item 4. Information on The Company – B. Business Overview – Netvision" for additional details;

- set unfavorable national roaming tariffs or Mobile Virtual Network Operator, or MVNO, hosting tariffs, or require us to provide wholesale services on our landline infrastructure or provide and purchase such services at unfavorable tariffs or reduced interconnect tariffs so that they do not represent cost plus reasonable profit. In 2013, the Communications Law was amended to authorize the Minister of Communications to give instructions and to set interconnect tariffs and usage of another operator's network rates, based on several alternative methods of calculation, including but not limited to, the previous method consisting of cost plus reasonable profit. Further, in the MOC's hearings as to the wholesale landline market the MOC notes it is reviewing applying certain wholesale obligations on all landline operators, including us. See "Item 4. Information on the Company – B. Business Overview - "Government Regulations - Tariff Supervision", "-Additional UMTS Operators", and "– Landline";

- award new competitors certain benefits and leniencies not available to existing cellular operators, including through requiring us to allow usage of our network by such competitors and on unfavorable terms to us, waiving or easing the requirement to establish a network set in the licenses of mobile network operators, or MNOs; or by limiting our ability to compete, including by limiting our ability to develop our network or preferring new and/or small competitors in the allocation of frequencies, including those designated to the 4G of cellular services. The entry of additional competitors, specifically the launch of two new UMTS operators (using national roaming) in May 2012, had a material adverse effect on our results of operations and is expected to continue to adversely affect our results of operations in the future. See "Item 4. Information on the Company – B. Business Overview - Competition", "-Government Regulations – Mobile Virtual Network Operators" and "- Additional UMTS Operators" for additional details;

- impose new safety or health-related requirements;

- impose additional restrictions or requirements with respect to the construction and operation of cell sites or the networks, including in relation to the deployment of a 4G network and site sharing;

- impose restrictions on the provision of services or products we currently provide or regulate or otherwise intervene with the terms under which we advertise and market them and provide them to our subscribers, including in respect of existing agreements. For example, in mid- 2013 our license was amended in regards to portability completion process, effectively adversely affecting our sales and retention capabilities. In December 2013, our cellular license was amended so as to place restrictions on the provision of roaming services, including default blockage of the data roaming service to be opened only upon the customer's request, automatic blockage of data roaming services (other than customers that have a data plan) to be reopened again upon such request, each time the customer reaches a certain usage threshold, and certain

Table of Contents

notification procedures, in effect as of March 2014. Such change is expected to have an adverse effect on our roaming services and results of operations;

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

- set higher service standards or costly requirements relating to the service we provide our customers;

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

- impose a stricter policy with respect to privacy protection, such as with regard to data protection, collection, amelioration or usage of data for marketing activities. An initial proposal of the Information and Technology Authority regarding cellular operators, received in March 2012, proposes imposing strict limitations on such collection and usage, including the requirement to receive a positive consent of the customer to do so (other than with regards to basic data), and the Israeli Attorney General has filed a request with the Israeli court of uniform contracts to apply such stricter policy to us;

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

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

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

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

We face intense competition in all aspects of our business.

The Israeli cellular telephone market is highly competitive. We compete for subscribers with four other mobile network operators, or MNOs, and five MVNO operators. While we enjoy the largest subscriber market share, estimated to be 30.6% as of December 31, 2013, two of our competitors, Partner and Pelephone, enjoy estimated market shares of 29.1% and 26.3% respectively, with Hot Mobile estimated to have a market share of 8%, Golan estimated to have a market share of 4.1% and the MVNO operators together, with an estimated market share of approximately 1.9%. The competition in the cellular market increased over the last years. In 2011 Regulatory and other changes contributed to the intensified competition and increased price erosion, including the reduction of early termination fees in plans which include a commitment to a predefined period, or Early

Table of Contents

Termination Fees, and the formation of communications groups. The current competitive pressure in the Israeli cellular market results primarily from the entry into the market of additional competitors, specifically the launch of two new UMTS operators in May 2012 - Hot Mobile and Golan, using national roaming on Pelephone's and our networks (respectively) and aiming to win market share by introducing packages which included unlimited usage of certain services, or Unlimited Packages, at significantly lower tariffs than market level at that time. Given the highly penetrated state of the market, this has further increased the already intense competition characterizing the Israeli cellular market before their entry, substantially accelerated price erosion, materially increased churn rate, increased subscriber acquisition and retention costs due to materially increased gross recruitment of subscribers and led to a material decrease in revenues and profitability for us and other MNOs. The intensified competition led to the offering of bundles of services and Unlimited Packages, at lower average revenue per user, or ARPU, by all competitors, mainly by aggressive offers for a short term and as of 2013 year end, for long terms as well. The price differentiation between the incumbent and new competitors has eroded. The current level of competition is expected to continue despite Hot-Mobile and Golan obtaining the market share necessary for them to retrieve the substantial bank guarantees they previously provided to the MOC. In addition, regulatory changes leading to the entry of additional competitors to the handset market, increased competition in that market significantly and resulted in a decrease in the sale of handsets by us. See also “Item 4. Information on the Company - B. Business Overview" under “The Telecommunications Industry in Israel”, "Competition", "Government Regulations – Mobile Virtual Network Operators" and "Additional UMTS Operators". Should these trends continue to characterize the communications market they shall continue to affect the level of competition and our results of operations. Moreover, should any of them intensify or should any of the following developments materialize in our market, the level of competition may increase even further and may result in a further increase in the churn rate, loss of market share, increased subscriber acquisition and retention costs, further price erosion and increased costs (specifically data related) and ultimately reduced profitability for us:

- the approval and execution of a network sharing agreement between our competitors, more so if not coupled with an approval and execution of similar agreements by us, as it will provide our competitors sharing a network with a significant competitive advantage given the material savings in expenditures and investments (mainly in the passive sharing of cell sites) that can be achieved by such sharing of networks which would materially adversely affect our ability to compete and may also lead to further aggravation of the competition. In November 2013, Partner and Hot Mobile announced a network sharing agreement and in December 2013, we, Pelephone and Golan announced network and cell site sharing agreements, all subject to approvals by the Israeli regulators, including the Antitrust Commissionaire. In February 2014, Partner announced it has commenced deployment of a 4G network. For details regarding the sharing agreements see "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements";

- tariffs maintained at their current level or decreasing even further, more so if network sharing agreement are approved which will allow MNOs, and specifically Hot Mobile and Golan (who will no longer have to build their own network), to direct the extensive savings such agreements will afford into further competition and to support or decrease further the current low price

Table of Contents

levels. The launch of Hot Mobile and Golan's UMTS operation in May 2012, without having to first invest in building their own network allowed them to offer prices significantly lower than market level at that time, and caused a substantial decrease of prices made by all competitors, including us, followed by more aggressive offers, including even lower tariffs and free of charge Unlimited Packages for limited periods of time, which were matched by other operators, resulting in an erosion of the price level differentiation between incumbent and new competitors . This has led to a materially increased churn rate, price erosion (including due to a transfer of prepaid customers to postpaid pricing plans) and loss of revenues and profitability to us. Moreover, having reached the market share in the private sector which allows them to reduce their license fee commitment (of approximately NIS 705 and 360 million, respectively) to an immaterial amount and retrieve the bank guarantee guaranteeing that commitment, the extensive savings associated with network sharing, if approved, would allow Hot Telecom and Golan to extend their efforts into the business market as well and increase the level of competition in that sector as well. Furthermore, reduced tariffs for hosting services (as detailed below) would allow the new competitors to further support the intense competition and offer the current or lower tariffs to our customers. If tariffs remain at their current level or continue to decrease or if services continue to be offered free of charge, this could result in further loss of market share and loss of revenues and profitability. See "Item 4. Information on The Company –B. Business Overview – Competition" for additional details;

- increased competition in the hosting services market, as it shall result in the loss or decreased revenues for us. If our sharing agreements are not approved, Golan may choose to purchase (subject to our national roaming agreement conditions) future national roaming services elsewhere or engage in a network sharing agreement with another operator, resulting in the loss of revenues from national roaming services to us. For details regarding the sharing agreements see "Item 4. Information on The Company – A. History And Development Of The Company - Our History - Strategic network sharing agreements in 2013" and "- B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements". On the contrary, network sharing will result in substantial lower revenues for us from Golan for our 2G and 3G network sharing in comparison to our national roaming agreement and will further allow Hot Telecom and Golan to offer 4G hosting services to MVNOs, whereas presently, as they rely on national roaming on Pelephone's and our networks, they do not offer hosting services. Golan's reduced expenses and additional MNOs offering hosting services may result in increased competition . Increased competition in the hosting services market may occur simply as a result of Hot Mobile leaving Pelephone - its current provider of national roaming – and collaborating with Partner, which led to Alon Cellular changing its host (from Partner to Pelephone) and may instigate further changes in the hosting market;

- annulment or further relaxation of the structural separation imposed on each of the Bezeq and Hot groups (Bezeq being the incumbent landline operator and Hot the incumbent multichannel television provider, both monopolies in their incumbent market and the only groups owning full landline infrastructure in Israel and offering internet infrastructure services to ISP operators, as well as to end-users), or the approval of mergers between Bezeq and its subsidiaries and Hot and its subsidiaries, more so if not coupled with an effective wholesale landline market, in which Bezeq and Hot cannot favor their own subsidiaries or impede our ability to compete against them, as it will provide these groups a competitive advantage in the sale of bundles of services, including cellular services, and allow them to make more competitive offers than the ones we will be able to make, for example, by cross subsidizing with other services in which they have the capacity to monopolize the market, by providing us inferior services than those provided to their subsidiaries, or at higher prices, which may result in a loss of market share by us in the different communications markets in which we operate, including the cellular market. The formation of communications groups in Israel with the regulatory changes already relaxing the structural separation imposed on each of the Bezeq and Hot groups allowed each of the groups to offer a bundle of services. With the competitive focus shifting from individual services to services to families, our dependence on the formation of an effective landline wholesale market, to allow us to include television and internet infrastructure in our offer and be competitive, has been accentuated. A policy paper published by the Ministry of Communications in relation to the wholesale market of landline services in Israel, called for the annulment of certain structural limitations currently imposed on the Bezeq and Hot groups (and the consideration of annulling or relaxing others) after an agreement regarding a landline wholesale market is executed between Bezeq or Hot and another operator which has a significant market share, as well as the replacement of Bezeq's regulated fixed tariffs with maximum tariffs. As negotiations failed, (although Partner had reached some understandings with Bezeq), we are awaiting the MOC's decision as to wholesale prices (a hearing to that effect was published by the MOC in January 2014). A wholesale market will facilitate the entrance of new competitors to the landline market and may trigger further escalation in the competition in other markets in which we operate, including the cellular market. Further, a hearing published by the MOC in October 2013, regarding a change to the ILD services Regulation, proposes, among others, to annul the current limitation preventing landline and cellular operators to provide ILD services themselves (rather than through a separate corporation), which if adopted and applied to the Bezeq and Hot groups as well, will result in the annulment of the structural limitations currently imposed on them, in relation to the ILD services, even before a landline wholesale market is created. See "Item 4. Information on The Company –B. Business Overview –Nevision - Telephony Business – Regulation" for additional details. Further, in November 2013, the Israeli Antitrust Commissionaire published a draft of the terms under which it is considering approving a merger between Bezeq and Yes, Bezeq's subsidiary providing multichannel pay-TV, for the public's comments. The annulment of structural limitations will allow Bezeq and Hot to offer bundles of services, including cellular services, without limitation and may allow them to take advantage of their nationwide presence to market and sell attractive offers. Bundle offerings have accelerated and are expected to accelerate price erosion in each of the services included. With each of the groups having an interest not to erode the prices of its core business, but rather that of its competitors, such erosion is especially expected in those services which are not the core services of the Bezeq and Hot groups. Moreover, should we decide to enter the television market, such entry may trigger increased competitive pressure by Hot, the monopoly in this market, and possibly Bezeq, on our core business, aiming at preventing our efforts to compete with them at the television and landline markets. See "Item 4. Information on The Company –B. Business Overview – The Communications Market in Israel - Communications Groups – Structural Separation", "-Competition", "-Government Regulations – Landline", "-Nevision - ISP Business - Competition" and "-Nevision - Telephony Business – Competition" for additional details; and

- continued increased competition in the handsets market. Regulatory changes encouraging the entry of additional players to this market, coupled with the prohibition on any linkage between a cellular services transaction and handsets purchase transaction and the prohibition on the offering of airtime rebates or refunds for the handsets as of January 1, 2013, which reduced further our contact points and therefore sale opportunities with our customers as well as reduced their connection to us, resulted in increased competition and substantially reduced handset sales for us. This, together with the increased handset purchases elsewhere and additional distributors for the Apple handsets which have dominated the handset sales in recent years in Israel in the last year, may result in decreased handset sales, and even an inability to meet our contractual obligations to purchase a minimal quantity of handsets from Apple, decreased revenues and profitability to us, and may also increase churn and adversely affect our cellular services results of operations. See "Item 4. Information on The Company –B. Business Overview – Competition" for additional details.

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

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

We have experienced difficulties in obtaining some of these consents and permits, particularly in obtaining building permits for cell sites from local planning and building authorities. As of December 31, 2013, we operated a small portion of our cell sites without building permits or applicable exemptions. Although we are in the process of seeking to obtain building permits or to modify our cell sites in order to satisfy applicable exemptions, we may not be able to obtain all the necessary permits or make the necessary modifications.

Approximately 30.8% of our cell sites operate without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. Our reliance on the exemption for radio access devices had been challenged and is currently awaiting ruling by the Israeli Supreme Court. Under an interim order issued by the Supreme Court in September 2010, we are unable to further construct radio access devices in cellular networks in reliance on the exemption, until regulations limiting our reliance on the

Table of Contents

exemption are enacted or a different decision by the court is made. A further decision of the Supreme Court in February 2011, states that the order will not apply to the replacement of existing radio access devices under certain conditions. As of September 2011, the interim order was relaxed to allow two new UMTS operators, Hot Mobile (previously Mirs Communications Ltd. or Mirs) and Golan, to construct radio access devices in reliance on the exemption . Our application to relax the interim order against us was denied. The Attorney General's opinion, submitted in December 2013 to the court supports a permanent order to prevent us from constructing radio access devices in cellular networks in reliance on the exemption, until regulations limiting our reliance on the exemption are enacted but allowing us to replace radio access devices under certain conditions and allowing Hot mobile and Golan to continue to construct radio access devices in reliance on the exemption, until July 2014. We are awaiting the Court's decision.

Additionally, in November 2008, the District Court of Central Region, in its capacity as court of appeals, ruled that the exemption does not apply to radio access devices, if the rooftop, on which those devices are located, is at the same level as a residence or other building that is regularly frequented by people.

Following the Attorney General's conclusion that the application of the exemption does not balance properly the different interests involved and therefore cannot continue unchanged, the Israeli Minister of Interior Affairs submitted draft regulations for approval by the Economy Committee of the Israeli Parliament in March 2010. The draft regulations include significant limitations on the ability to construct radio access devices based on the exemption, which will render the construction of radio access devices based on the exemption practically impossible.

In addition, we may be operating a significant number of our cell sites in a manner that is not fully compatible with the building permits issued for these cell sites which may, in some cases, also constitute grounds for termination of our lease agreements for those sites or claims for breach of such agreements. Our rooftop microwave sites and repeaters operate in reliance upon an exemption from the requirement to obtain a building permit. Substantially all of our outdoor microwave sites are rooftops. It is unclear whether other types of repeaters require a building permit.

An annulment of or inability to rely on or substantial limitation of the exemption could adversely affect our existing networks and networks build-out, particularly given the rapidly growing demand for data traffic on our network (including as a result of our 2G and 3G sharing agreement, if approved), specifically in urban areas, and the refusal by some local planning and building authorities to grant due permits where required. This could have a negative impact on our ability to obtain environmental permits for these sites, and could negatively affect our ability to continue to market our products and services effectively and may have a material adverse effect on our results of operations and financial condition. See “Item 4. Information on the Company – B. Business Overview - Government Regulations—Permits for Cell Site Construction" for additional details regarding the exemption.

Operation of a cell site or other facility without a building permit or not in accordance with the permit or other legal requirements may result in the issuance of a demolition order for the cell site or other facility or the bringing of criminal charges against us and our officers and directors. Certain of our cell sites have been subject to demolition orders. In addition, criminal charges have been brought against us and our officers and directors in connection with cell sites that were alleged to have been constructed or used without the required permits

Table of Contents

or not in accordance with the permits granted. As of December 31, 2013, 8 criminal and administrative proceedings were pending; a demolition order has been granted with respect to two cell sites while the remaining six proceedings are pending further litigation.

Pursuant to the Israeli Non-Ionizing Radiation Law, 2006, the granting or renewal of an operating permit by the Commissioner of Environmental Radiation at the Ministry of Environmental Protection of Israel, or the Commissioner, for a cell site or other facility is subject to the receipt of a building permit or the facility being exempt from the requirement to obtain a building permit. Should we fail to obtain building permits for our cell sites or other facilities, including in the event that our reliance upon an exemption from the requirement to obtain building permits for these cell sites and other facilities is found invalid, the Commissioner will not grant or renew our operating permits for those cell sites and other facilities. Since October 2007, the Commissioner has taken the position that he will not grant or renew operating permits to radio access devices where the local planning and building committee's engineer objected to our reliance upon the said exemption for radio access devices.

For reasons not related to radiation hazards, but due to building and planning issues we have received partial environmental permits for single cell sites. Operating a cell site or a facility without an operating permit could subject us and our officers and directors to criminal, administrative and civil liability.

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

Should any of our officers or directors be found guilty of an offense, they may face monetary penalties and a term of imprisonment. Our cell sites may be the subject of demolition orders, we may be required to relocate cell sites to less favorable locations or stop operation of cell sites, which could negatively affect the extent, quality and capacity of our network coverage, all of which may have a material adverse effect on our results of operations and financial condition.

Certain proposed amendments to the Non-Ionizing Radiation Law and Regulations and the Planning and Building Law, propose setting additional restrictions in relation to the operation of cell sites and other facilities, such as setting larger distance requirements between cell sites locations and residences or certain institutions. If such changes are adopted, they will, among other things, limit our ability to construct new cell sites or, if applied to existing cell sites, to renew operating permits for many of our existing cell sites), adversely affect our existing networks and networks build out, specifically in urban areas, and could adversely affect our results of operations. See "Item 4. Information on the Company – B. Business Overview - Government Regulations - Permits for Cell Site Construction".

In June 2010, proposed changed to the Israeli National Zoning Plan 36, or the Plan, which regulates cell site construction and operation, were approved by the Israeli National Council for Planning and Building and submitted for the approval of the Government of Israel. If the proposed changes, which would place additional restrictions on the construction

Table of Contents

and operation of cell sites, are approved by the Israeli Government, they will harm our ability to construct new cell sites, make the process of obtaining building permits for the construction and operation of cell sites more cumbersome and costly, adversely affect our existing network, delay the future deployment of an advanced network, or negatively affect the extent, quality and capacity of our network coverage and our ability to continue to market our products and services effectively, all of which could have a material adverse effect on our results of operations and financial condition.

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

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

In July 2011, an inter-ministry team of the Ministries of Communications, Finance, Interior, Environmental Protection and the Anti-Trust Commissionaire, published its recommendations regarding cell site sharing. The recommendations include compulsory cell site sharing in the construction of new cell sites or modification of existing cell sites which require a building permit (the Ministry of Communications may exempt sharing for reasons related to technological or engineering difficulties), preference and leniencies to the new UMTS operators, and a reduction in number of the existing non shared cell sites. Unlike the site sharing we wish to implement under our network sharing agreement with Pelephone and Golan, which would be beneficial for us, these recommendations or similar recommendations, if enacted, may adversely affect our existing cellular network or network build-out, and thus our results of operations. For details regarding network and cell sites sharing agreements see, "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements".

Table of Contents

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

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

In January 2006, the law was amended to require an applicant, as a precondition to obtaining a cell site construction permit from a planning and building committee, to provide a letter to the committee indemnifying it for possible depreciation claims. As of December 31, 2013, we had provided approximately 368 indemnification letters to local planning and building committees. Calls upon our indemnification letters may have a material adverse effect on our financial condition and results of operations. We may also decide to demolish or relocate existing cell sites to less favorable locations and to construct new cell sites in alternative, less suitable locations or not at all, due to the obligation to provide indemnification. As a result, our existing service may be impaired or the expansion of our network coverage could be limited.

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

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

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

Handsets, accessories and various types of cell sites are known to be sources of non-ionizing radiation emissions and are the subject of a public debate and concern in Israel. While, to the best of our knowledge, the handsets that we market comply with the applicable legislation that relate to acceptable “specific absorption rate,” or SAR, levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers’ approvals refer to a prototype handset, we have no information as to the actual level of SAR of the handsets throughout the lifecycle of the handsets, including in the case of handset repair. See also “Item 4. Information on the Company – B. Business Overview - Government Regulations - Handsets”. In July 2008, the Israeli Ministry of Health published recommendations to take precautionary measures when using cellular handsets, which has increased the concerns of the Israeli public. In May 2011, the International Agency for Research on Cancer, an agency of the World Health Organization, or WHO, issued a press release classifying radiofrequency electromagnetic fields as possibly carcinogenic to humans (Group 2B), based on an increased risk for glioma, a malignant type of brain cancer, associated with wireless phone use. In June

Table of Contents

2011, the WHO publication noted that to date, no adverse health effects have been established as being caused by mobile phone use and while an increased risk of brain tumors is not established, the increasing use of mobile phones and the lack of data for mobile phone use over time periods longer than 15 years warrant further research of mobile phone use and brain cancer risk, particularly given recent popular use by younger people with potentially longer periods of exposure. Several bills, aimed at increasing awareness of the possible risks of cellular phones usage, reducing usage thereof and introducing precautionary measures are awaiting deliberation by the Israeli Parliament. In January 2013, the Ministry of Science and Technology and the Ministry of Environmental Protection announced the establishment of a non-ionizing radiation information center that will provide information to the public, issue warnings and guidelines for reducing exposure to risks in general and specifically in regards to sensitive populations and perform and coordinate research in that regard. In March 2013, Partner has reportedly agreed to pay NIS 400 thousand to a customer claiming his cancer was caused by cellular phone usage (while disclaiming any responsibility).

Health concerns regarding cell sites have caused us difficulties in obtaining permits for cell site construction and obtaining or renewing leases for cell sites resulted in unlawful sabotage of a small number of cell sites and prompted proposed legislation aimed at increasing the minimum distance permitted between cell sites and certain institutions. See " - We may not be able to obtain permits to construct and operate cell sites" above for additional details. In July 2009, the Ministries of Interior Affairs and Environmental Protection adopted the position that, with respect to radiation safety, cell sites constructed pursuant to a building permit are preferable to radio access devices and that utilizing a cellular network to provide advanced services that can be provided through a landline network is not justified in light of the preventive care principle set forth in the Israeli Non-Ionizing Radiation Law. Further, in May 2012, in response to a petition to hold a public debate regarding 4G service in Israel and prevent 4G spectrum allocation until such debate is held, the Ministries of Communications, Health and Environmental Protection took the position that 4G services would involve some increase in the level of non-ionizing radiation the public will be exposed to, and that in order to minimize such increase, 4G deployment should be based on current cell sites or additional outdoor and indoor small cell sites, and should use whenever possible wireline infrastructure so that data traffic shall be carried mostly through wirelines and not cellular infrastructure. The adoption of the inter-ministry team's recommendations, regarding cell site sharing (see " - We may not be able to obtain permits to construct and operate cell sites" above), is a precondition for the deployment of 4G infrastructure. The Ministry of Health further opined that in light of the preventive precaution principle and in order to reduce as much as possible the alleged health risks, 4G usages should be predefined and additional usage, where a landline alternative is available, should be conditioned on further discussion.

If health concerns regarding non-ionizing radiation increase further, or if adverse findings in studies of non-ionizing radiation are published, non-ionizing radiation levels are found to be higher than the standards set for handsets and cell sites or additional requirements or limitations are imposed on the marketing of cellular products or services, we may be subject to health-related claims for substantial sums. Consumers may also be discouraged from using cellular handsets and regulators may impose additional restrictions on the construction and operation of cell sites or handset and accessories marketing and usage. As a result, we may experience increased difficulty in constructing and operating cell sites and obtaining leases for new cell site locations or renewing leases for existing locations, or be exposed to property depreciation claims; and we may lose revenues due to decreasing usage of our services and be subject to increased regulatory costs. We have not obtained insurance for these potential claims. See note 30 to our consolidated financial statements for 2013, included elsewhere in this annual report for additional details on two purported class actions filed against us in that respect. An adverse outcome or settlement of any health-related litigation against us or any other provider of cellular services could have a material adverse effect on our results of operations, financial condition or prospects.

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

In September 2013, we recognized the Histadrut, an Israeli labor union, as the union representing the Company's and Netvision's employees and commenced negotiations regarding a collective employment agreement with the employees' representatives. As a result, our ability to execute organizational and personnel changes is more limited, cumbersome and lengthy and significant management attention, that would otherwise be available for our ongoing business, is directed at the collective employment agreement negotiations and other matters involving the unionization. Although to date, we have not suffered any work stoppages or other disruptions to our operation, an attempt to carry out a material organizational change, may trigger an adverse impact on our services or customer service, fail to be executed or be executed in a materially different way than planned, resulting in substantially lower savings than expected or requiring materially increased employment costs. In addition, a collective employment agreement reached at other companies, in recent years, resulted in a one-time substantial payment as well as an increase in annual employment costs for these companies. Inability to make organizational and personnel changes in due time or at all or under severe limitations, or cumbersome organizational procedures, as well as work stoppages or other disruption to our operations and limitations on management's discretion, may damage the efficiency and quality of our operations, and may lead to damage to our reputation, increased customer churn, loss of market share and reduced profitability.

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

In order to attract and retain the maximum number of subscribers in our highly competitive market, we design specific pricing plans to suit the various preferences of our types of subscribers such as individuals, families or businesses. We require sophisticated information systems to accurately record subscriber usage pursuant to the particular terms of each subscriber’s plan as well as accurate database management and operation of a very large number of pricing plans. From time to time, we have detected some discrepancies between certain pricing plans and the information processed by our internal information systems, such as applying an incorrect rebate or applying an incorrect tariff to a service resulting in a higher charge. We have invested substantial resources to refine and improve our information and control systems and ensure that our new pricing plans are appropriately processed by our information systems; we have also taken steps to remedy the identified discrepancies and have established reserves where the discrepancies are quantifiable. Despite our substantial investments, we may experience discrepancies in the future due to the multiplicity of our plans, the frequent changes to our licenses and relevant legislation governing our pricing plans and the scope of the processing tasks. Following our merger with Netvision and the offering of bundles of services of both companies, billing our customers involves information systems of both companies and increases the possibility of errors. While we are in the process of creating one billing and Customer Relation Management, or CRM, systems for both

Table of Contents

companies, until such process is completed, there is a risk such discrepancies may occur. Further, while we invest substantial efforts in monitoring our employees and third-party distributors and dealers that market our services, it is possible that some of our employees, distributors or dealers may offer terms and make (or fail to make) representations to existing and prospective subscribers that do not fully conform to applicable law, our licenses or the terms of our pricing plans. As a result of these discrepancies, we may be subject to subscribers' claims, including class action claims, and substantial sanctions for breach of our licenses or the applicable laws and regulations that may materially adversely affect our results of operations. Further, frequent and multiple changes to our general license and relevant legislation require ongoing changes to our operations, pricing plans and supporting information systems. Such changes increase the risk that our employees, distributors and dealers and our information systems will not fully support such changes. As of January 1, 2013, each discrepancy from the customer's pricing plan, remedied after the customer complained, shall award the customer with predefined damages in an insignificant amount, but may aggregate to substantial amounts if paid to numerous customers on multiple occasions.

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

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

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

Table of Contents

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

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

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

Our operations are dependent on complex technology and information systems.

Our operations are dependent on a number of complex technological systems. The offering of bundles of services by us and Netvision, following our merger, increased the number of complex technological systems involved in providing service to our customers and in the billing process of our customers, resulting in some cases in cumbersome procedures, inefficient usage of resources and lack of uniformity. The occurrence of malfunctions in such complex and ever changing and expanding systems is inevitable. In addition, we are in the process of implementing one billing system and intend to implement one CRM system for both companies, which may result in larger expenditures than anticipated, require significant management attention that would otherwise be available for our ongoing business, or lead to unforeseen operating difficulties and malfunctions, which may lead to loss of revenues, legal claims and regulatory sanctions. We are further substantially expanding the amount of services we outsource in respect of our critical information systems, which could result in an adverse effect on the quality of our customer service, loss of internal knowledge and capabilities and substantially higher dependency on the supplier of such outsourced services, and which may lead to diversion of management attention. For additional details regarding our information systems agreements, see "Item 4. Information on the Company - B. Business Overview - Network and Technology - Information technology". For example, in December 2010, we suffered a major network malfunction, following which we decided to grant our subscribers a substantial refund and were also sued for substantial amounts of purported damages. A malfunction in any of our systems which severely impacts our ability to provide products and services to our customers

Table of Contents

may result in loss of revenues to us, may adversely impact our brand perception and expose us to legal claims, all of which may adversely affect our results of operations.

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

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

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

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

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

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

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

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

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

For details regarding a creditors agreement affecting IDB and IDB Development, subject to, among others, the approval of the Ministry of Communications see " - We are a member of the IDB group of companies, one of Israel's largest and most highly regulated business groups, which may limit our ability to expand our business, to acquire other businesses or raise debt. The effects on us of IDB's pending change of control at IDB are unclear" below.

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

Table of Contents

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

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

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

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

The telecommunications market is known for rapid and significant technological changes and requires ongoing investments in advanced technologies in order to remain competitive. In recent years we have witnessed a growing demand for Internet, content and data through advanced third generation cellular phones, smartphones, modems, tablets and other devices using cellular data that resulted in a rapid growth of data traffic on cellular networks and required cellular operators to upgrade their networks to accord such demand. Transfer of subscribers to Unlimited Packages of services, MVNO hosting services and national roaming on our network, have contributed to the substantially growing demand for data traffic on our network, as well as to voice and text messages. We estimate that data traffic will continue to grow in the future. To meet the growing demand for cellular data traffic, we would be required, among others, to continue our investment in upgrading both our cellular and our transmission network as well as to invest in 4G cellular technologies (Long Term Evolution, or LTE), which will allow larger capacity and higher data speed rates. An LTE network, would require additional substantial investments and the allocation of frequencies for an LTE network. Such allocation to us is not guaranteed when required or at all, including in light of: (1) prior preference given by the Ministry of Communications to new and small competitors in the allocation of additional UMTS frequencies at the September 2010 tender; (2) the fact that we have frequencies that could be used for an LTE network, should we be able to remove our 2G customers from these (although we cannot clear the minimal bandwidth required for an LTE network operation), whereas some operators do not; (3) the limited amount of available 1800MHz frequencies which cannot support separate LTE networks for all MNO operators; and (4) uncertainties relating to the government's position with respect to the terms and conditions of the provision of 4G services in Israel. There is no certainty as to the cost of frequencies, if and when allocated to us. The purchase of 4G frequencies may require us to raise additional debt in order to finance such purchase.

Inability to receive additional frequencies in a timely manner to meet our needs or at all and specifically if LTE frequencies are allocated to our competitors and not to us or

Table of Contents

allocated to us under less favorable terms than to our competitors (including the allocation of higher frequency bands which provide lower-quality coverage and would therefore require us to construct a substantially larger amount of cell sites) could impair our ability to compete and may require us to cease offering certain products and services we currently offer or change their terms and conditions or make substantial unplanned investments, which may have an adverse effect on our results of operations.

Under our network sharing agreements, the construction, management, operation and maintenance of our 2G, 3G and 4G radio networks will be carried out by a separate newly created entity, equally owned by us and Pelephone. Further, any strategic decisions regarding the LTE network will be made by a joined steering committee for us, Pelephone and Golan, by majority vote. This means that should these agreement be approved and executed, we will relinquish control over our radio network day to day operation, the employees performing such tasks shall no longer be committed to us and to our customers and decision making will no longer take only our interests and desires into consideration. Should we fail to secure continued quality operation and development of our networks by the separate entity which meets our needs and requests or fail to maintain sufficient knowledge and capabilities internally, this may result in an adverse effect on the quality of our service and coverage, our present or future competitive abilities and ultimately to our results of operations. Further, the savings expected from our network sharing agreements, if executed, may be preceded by increased levels of costs and investments, necessary for the unifying of cell sites and LTE deployment, which is expected to result in decreased profitability for the interim period. The network sharing agreements may also require significant management attention that would otherwise be available for our ongoing business. Further, such unification of cell sites may results in local degradation of service to our customers due to relocation of cell sites which may lead to dissatisfaction among such customers and require us to invest in local solutions, such as repeaters. In addition, should Golan customers use solely our 2G and 3G networks under the network sharing agreements, whereas presently they use both ours and Golan's cell sites, may result in adverse effect on our ability to continue to support the demand for cellular data traffic and market our products and services effectively, more so if we are unable to use Golan's cell sites. For additional details regarding the network sharing agreements see "Item 4. Information on The Company – A. History And Development Of The Company- Our History - Strategic network sharing agreements in 2013" and "- B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements".

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

We rely on agreements to provide roaming capabilities to our subscribers in many areas outside Israel. As of December 31, 2013, we had roaming arrangements with 564 cellular providers in 179 countries around the world. However, we cannot control the quality of the service that they provide and it may be inferior to the quality of service that we provide. Equally, our subscribers may not be able to use some of the advanced features that they enjoy when making calls on our network. Some of our competitors may be able to obtain lower roaming rates than we do because they may have larger call volumes. If our competitors' providers can deliver a higher quality or a more cost effective roaming service, then subscribers may migrate to those competitors and our results of operation could be adversely affected. Further, we may not be able to compel providers to participate in our technology migration and enhancement strategies. As a result, our ability to implement technological innovations could be adversely affected if these overseas providers are unable

Table of Contents

or unwilling to cooperate with the further development of our network or if they cease to provide services comparable to those we offer on our network.

Inbound roaming to our network is also influenced by our ability to maintain favorable roaming arrangements. The entry of additional UMTS providers has not only increased competition regarding outgoing roaming services but also increased competition on inbound roaming services.

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

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

As of December 31, 2013, our total indebtedness was approximately NIS 5,437 million ($1,566 million), with our net debt at approximately NIS 3,842 million ($1,107 million). For additional details see "Item 5. Operating and Financial Review and Prospects. – B. Liquidity and Capital Resources – General". The indentures governing our debentures currently permit us to incur additional indebtedness (subject in some case to certain limitations). Our substantial debt could adversely affect our financial condition by, among other things:

- increasing our vulnerability to adverse economic, industry or business conditions, including increases in the Israeli Consumer Prices Index, or CPI, as approximately NIS 3,912 million ($1,127 million) is CPI linked;

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

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

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

In October 2010, the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance published a circular instructing institutional investors to follow certain procedures and requirements before investing in non-governmental debentures, including a requirement to verify that certain contractual provisions are included in the indentures of the invested debentures, and to establish a policy for investment in such debentures which will relate among other matters to repayment acceleration rights. Following these procedures, our series F and G indentures dated March 2012 include such limitations and covenants, including a covenant not to issue additional debentures if it involves a rating downgrade, certain financial covenants, negative pledge, cross default, limitation on the distribution of dividends, obligation to pay additional interest in case of certain rating downgrades (which occurred under our series F and G debentures, in June 2013). These limitations are expected to apply to any additional debt raised by us. In August 2013, the Commissioner of Capital

Table of Contents

Markets, Insurance and Savings in the Ministry of Finance published a continuance circular generally providing example terms to be included in indentures. For details regarding such limitations and covenants see "Item 5. Operating and Financial Review and Prospects. – B. Liquidity and Capital Resources – Debt Service". These procedures, limitations and covenants limit our freedom to conduct our business, may impose additional costs on us and may limit our ability to raise additional debt from Israeli institutional investors as well as adversely affect the terms and price of such debt raising.

During 2011, 2012 and 2013, we suffered a significant decrease in our operating results following certain regulatory changes, intensified competition and price erosion (see "Item 4. Information on the Company – B. Business Overview –Competition", "-Mobile Virtual Network Operators" and "-Additional UMTS Operators") whereas our net debt has increased . For additional details see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service". In May 2012 and in June 2013, the rating of our debentures was downgraded due to increased leverage and competitive pressure. This and any further downgrade in our rating, and any adverse change in our financial results, including any increase in our net leverage (defined in our series F and G indentures as the ratio of net debt to EBITDA during a period of 12 consecutive months, excluding onetime influences), may adversely affect the terms and price of debt raised, particularly through the issuance of debentures to institutional investors, which, given the limitation on the ability of Israeli banks to lend money to us pursuant to the “Guidelines for Sound Bank Administration” issued by the Israeli Supervisor of Banks (as we are a member of IDB’s group of borrowers), may limit our ability to obtain additional financing to operate, develop and expand our business or to refinance existing debt.

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

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

A portion of our cash payments are incurred in, or linked to, foreign currencies, mainly U.S. dollars. In particular, in 2011, 2012 and 2013, payments denominated in, or linked to, foreign currencies, mainly U.S. dollars, represented approximately 39%, 36% and 24%, respectively, of our total cash outflow (including payments of principal and interest on our debentures, but excluding one-time payments in 2011 associated with the acquisition of Netvision). These payments included capital expenditures, some cell site rental fees, payments to equipment suppliers including handset suppliers and part of our dividend payments. As almost all of our cash receipts are in NIS, any devaluation of the NIS against those foreign currencies in which we make payments, particularly the U.S. dollar, will increase the NIS cost of our foreign currency denominated or linked expenses and capital expenditures.

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

Table of Contents

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

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

In February 2006, we adopted a dividend policy targeting a payout ratio of at least 75% of our net income in each calendar year, subject to any applicable law, our license and contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. Our series F and G indentures dated March 2012 contain a covenant not to distribute more than 95% of the profits available for distribution according to the Israeli Companies Law 1999, or Companies Law, or Profits. Moreover, under such indentures, if our net leverage (defined as the ratio of net debt to EBITDA during a period of 12 consecutive months, excluding certain one-time effects) exceeds 3.5:1, we may not distribute more than 85% of our Profits and if our net leverage exceeds 4.0:1, we may not distribute more than 70% of our Profits. For additional details see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt Service ". In addition, our license requires that we and our 10% or more shareholders maintain at least $200 million of combined shareholders' equity. Dividend payments are not guaranteed and our Board of Directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends or to pay dividends at a ratio to net income that is less than that paid in the past. In 2010 and 2011 our Board of Directors declared dividends constituting as much as 95% of our net income and in some cases, part of our retained earnings from earlier periods as well. In respect of 2012 and 2013, a dividend was declared for the first quarter of 2012 and third quarter of 2013 only, constituting 75% of our net income, and part of our retained earnings from earlier periods, respectively, whereas for the second, third and fourth quarters of 2012 and the first, second and fourth quarters of 2013, our board of directors chose not to declare dividends, given the intensified competition and its adverse effect on our results of operations and in order to strengthen our balance sheet. See "Item 8. Financial Information - A. Consolidated Statements and Other Financial Information - Dividend Policy".

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

Table of Contents

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

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

We depend upon a small number of suppliers to provide us with key equipment and services. For example, Nokia Siemens Israel provides our network system based on GSM/GPRS/EDGE technology, our UMTS/HSPA core system, part of our radio access network and related products and services, and our landline New Generation Network system, or NGN system; LM Ericsson Israel supplies part of our radio access network and related products and services based on UMTS/HSPA technology; Amdocs Israel provides us with services with respect to the operating of, and the implementation of developments to our existing billing system, including the development of a new version to include both our and Netvision's billing; Alcatel Lucent provides our Carrier Ethernet network and SDH equipment for our transmission network; and Be'eri Printers provides our printing supplies and invoices as well as the distribution, packaging and delivery of invoices and other mail to the postal service distribution centers. In addition, we lease a small portion of our transmission capacity from Bezeq, the incumbent landline operator. Should an effective landline wholesale market materialize and should we enter an agreement for the purchase of broadband infrastructure services with IBC, we may acquire services from Bezeq, Hot and IBC in order to provide internet infrastructure IPTV and landline telephony services to our customers at competitive prices, in which case we would be dependent on Bezeq, Hot and IBC for such services. Bezeq has experienced labor disputes, including stoppages, during the privatization process and liberalization of the landline market, Hot has experienced labor disruptions, during a unionization attempt in the last year and the IEC's (one of IBC owners) employees have been reported to delay IBC's operation until their demands are met and additional disruptions, stoppages and slowdowns may be experienced in the future and adversely affect our operations. If these suppliers fail to provide equipment or services to us that meet requisite quality standards or on a timely basis, we may be unable to provide services to our subscribers in an optimal manner until an alternative source can be found, which may result in loss of customers and revenues or place our license at risk of revocation for failure to satisfy the required service standards.

In addition, our handset sales have been dominated in recent years by Apple and Samsung products, representing over half of our handset sales. See "Item 4. Information on the Company - B. Business Overview - Handsets" for additional details. Should any of these suppliers (Samsung through its official importer to Israel – Suny Communications (1994) Ltd., or Suny, with its affiliate Scailex Corporation Ltd., or Scailex, are part of Partner's controlling shareholders) refuse to sell handsets to us, condition such sales on unfavorable terms and conditions or provide our competitors more favorable terms and conditions, or if these suppliers fail to produce successful and desirable products when no equivalent alternatives are available, this could have a material adverse effect on our handset sales and results of operations.

Our investment in new businesses involves many risks.

We have invested and expect to continue to invest in exploration and development of new business opportunities in order to extend and complete our capabilities and offerings, such as our OTT TV solution, which is in the final stages of development. Such endeavors may involve significant risks and uncertainties, including shift of management attention from our ongoing business, loss of focus of our sales and marketing efforts on our main businesses due to attention given to new businesses, insufficient revenues to offset liabilities assumed and expenses associated with these new investments, inadequate return of capital on our investments, and unidentified issues not discovered in our due diligence of such strategies and offerings, such as unforeseen operating difficulties and large expenditures. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not materially adversely affect our reputation, financial condition, and operating results. Moreover, entry into such new ventures may trigger increased competitive pressure by the incumbent providers of competing services on our core business, aiming at preventing our efforts to compete with them at the relevant market.

We are a member of the IDB group of companies, one of Israel’s largest and most highly regulated business groups, which may limit our ability to expand our business, to acquire other businesses or raise debt. The effects on us of IDB's pending change of control at IDB are unclear.

We are an indirect subsidiary of IDB, one of Israel’s largest and highly regulated business groups. In January 2014, the Israeli court approved a creditors' arrangement for IDB, under which if implemented) IDB Development (currently its wholly owned subsidiary) would be controlled by the Elzstain - Extra group, led by Mr. Eduardo Elzstain (who as of December 31, 2013, held 10% of the outstanding share capital of a private company that was among the then controlling shareholders of IDB - see the recent developments described in Item 7A below) and Mr. Mordechai Ben Moshe. The creditors' arrangement is subject to receipt of requisite approvals under applicable law including, among others, by the Ministry of Communications and the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance. Subsequently, Mr. Nochi Dankner and Ganden Holdings Ltd. (IDB's controlling shareholders as of December 31, 2013) filed a request to annul the court's approval to the creditors' arrangement for IDB and also filed an appeal against such decision to the Supreme Court. We are unable to predict the effect on us of the above pending creditors' arrangement and resultant change of control in IDB, if implemented, and as such, IDB's financial condition could have an adverse effect on our debentures rating or ability to raise additional debt, or on the terms of any debt raised.

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

Due to the limited size and high level of regulation of the Israeli market, and the communications market in particular, our being a member of the IDB group of companies may limit our ability to expand our business in the future, form joint ventures and strategic alliances and conduct other strategic transactions with other participants in the Israeli communications market. See also the law for the promotion of competition and the mitigation of concentration under "Risks Relating to Our Ordinary Shares - Legislation in Israel affecting corporate conglomerates, could adversely affect us" below, which may have an adverse effect on our business.

Table of Contents

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

As of December 31, 2013, DIC held, directly and indirectly, approximately 41.89% of our outstanding share capital. Pursuant to shareholders agreements among DIC and certain of our minority shareholders, who in the aggregate own approximately 3.43% of our ordinary shares, DIC has been granted the voting rights in respect of those shares. In addition to DIC's shareholdings and such additional voting rights, it has the right to appoint the 20% of our directors that we are required by our license and articles of association to have appointed by Israeli citizens and residents among our founding shareholders. Accordingly, subject to legal limitations, DIC has control (as the term "control" is defined in the Israeli Securities Law; namely the ability to direct a company's activities) over all matters requiring shareholder approval, including the election and removal of our directors (other than external directors) and the approval of significant corporate transactions. This concentration of ownership could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares.

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

Risks Related to our Wholly Owned Subsidiary Netvision

Changes in the regulatory environment could adversely affect Netvision's business.

Netvision is subject to regulation of its ongoing operations and could therefore be significantly impacted by decisions of regulators, changes in laws, regulations or government policy affecting its business activities. The uncertainties and risks surrounding the regulatory framework of the Israeli telecommunications market, some of which we are currently unable to foresee or assess, could negatively affect Netvision's business and prospects. Netvision's operations in the ISP services, landline telephony and ILD services are highly regulated. A change in the competitive structure of the market or a change in the regulation on structural separation of different types of services may adversely affect Netvision's results of operations and its ability to compete with other large players in the market, such as Bezeq and Hot. The annulment of Early Termination Fees in the landline and ISP markets in November 2011 has increased competition as it has eliminated transfer barriers and resulted in increased churn rate and gross recruitment of subscribers and price erosion.

A policy paper in relation to the wholesale market of landline services in Israel published by the Ministry of Communications has called for the annulment of certain structural limitations currently imposed on the Bezeq and Hot groups (and possibly others), following the execution of a wholesale agreement with another operator which has a significant market share. As negotiations failed, we are awaiting the MOC's decision as to wholesale prices (a hearing to that effect was published by the MOC in January 2014). Further, a hearing published by the MOC in October 2013, regarding a change to the ILD services Regulation, proposes, among other things, to annul the current limitation preventing landline and cellular operators from providing ILD services themselves (rather than through a separate corporation). If such change is adopted and applied to the Bezeq and Hot groups, it will result in the annulment of the current structural limitations on these groups, in relation to the ILD services, even before a landline wholesale market is created, and could result in substantial loss of market share for Netvision (and other ILD providers which are not subsidiaries of Hot and Bezeq), in light of their dominance in the landline market. Further, in November 2013, the Israeli Antitrust Commissionaire published a draft of the terms under which it is considering approving a merger between Bezeq and Yes, Bezeq's subsidiary providing multichannel pay-TV, for the public's comments. Such merger, if approved, may increase Bezeq's ability and interest to favor its own subsidiary over other IPTV providers which are both dependent on Bezeq's infrastructure and competitors of its subsidiary, including by more favorable services, prices and service and may, should we decide to launch an IPTV service, adversely affect Netvision/our ability to offer a bundle of services including competitive IPTV services. Entry of additional competitors into the markets in which Netvision operates, facilitated by an effective wholesale market and the proposed unified license, may also increase competition in these markets. For additional details see "Item 4. Information on the Company - B. Business Overview – Competition", "-Government Regulation – Other Licenses – Possible Unified License", "-Government Regulations – Landline" and "Nevision - Telephony Business – Regulation".

Permitting telecommunications companies to offer bundled services and annulment of structural separation and supervision of Bezeq's tariffs may have a material adverse effect on Netvision's results of operation by enabling increased competition in the markets in which Netvision operates, specifically by approaching Netvision's customers in the ISP and landline markets which are Bezeq or Hot's customers in the internet infrastructure market. Moreover, it could specifically give a competitive edge to Bezeq and Hot, whose existing infrastructure and ability to offer bundled services may significantly harm Netvision's competitive position. Bezeq and Hot have the advantage of owning their own infrastructure and the ability to offer landline, international telephony and ISP services, as well as multichannel television independently of any third party support, unlike Netvision. Bezeq and Hot offer bundles of services under certain conditions. Annulment of these conditions and the structural separation, would provide Bezeq and Hot with additional advantage over other service providers such as Netvision that do not own their own infrastructure, given their success in creating a bundle perception to the public, despite the current limitations. Further, the offering of services by the Bezeq and Hot groups at tariffs significantly lower than prevailing market tariffs or than our costs for these services, such as by cross subsidizing with other services in which they have the capacity to monopolize the market, or by providing us inferior services than those provided to their subsidiaries, or at higher prices, could also significantly harm Netvision's competitive position as it could decrease demand for Netvision's services or lead Netvision to offer its services at a loss. Further, as Netvision is dependant on Bezeq and Hot's infrastructure to provide its services on the one hand, and is competing with them on the provision of ISP, ILD and landline services to end-users, on the other hand, price erosion of ISP services would lead to increased demand for greater bandwidth and would require Netvision to increase the capacity it purchases from Bezeq and Hot, while its revenues would be decreasing. This could also have a material adverse effect on Netvision's results of operations. In February 2012, Hot began offering ISP services and has done so at tariffs significantly lower than prevailing market prices and both Bezeq and Hot have significantly lowered their internet infrastructure services tariffs to end-users and are vigorously promoting wider bandwidth to end-customers. This has led to a significant decrease of ISP tariffs. See "Item 4. Information on The Company –B. Business Overview – The Communications Market in Israel - Communications Groups – Structural Separation",

Table of Contents

"– Competition", "-Government Regulations – Landline", and "Nevision - ISP Business - Competition" and "Nevision - Telephony Business – Competition".

In August 2013, I.B.C. Israel Broadband Company (2013) Ltd., or IBC, a company owned by the Israeli Electric Company, or IEC, and an international group led by Via Europa, received licenses for the provision of broadband infrastructure services on the IEC's optic fibers infrastructure to other licenses holders as well as directly to large business customers. As a result, IBC will be competing with Netvision in the business market. IBC further condition its services, among other requirements, with the demand that end users be able to purchase services from license holders purchasing its broadband infrastructure, through IBC's internet portal, where they will be able to compare license holders offers (such offers are to be reported in advance to IBC for that purpose) and transfer between them through such internet portal. Such portal is expected to increase the competitive pressures in the ISP and landline services and lead to further price erosion.

The entry of Hot Mobile and Golan into the ILD market in the second half of 2012 and the beginning of 2013, respectively and the inclusion of ILD services in bundles of services provided by both landline and cellular operators, had an adverse effect on Netvision's results of operations, as customers chose to obtain their ILD services from their cellular or landline's ILD subsidiary, rather than from Netvision's. This trend is expected to continue to adversely affect Netvision's results of operations, particularly if the proposed changes to the ILD regulation detailed above are adopted with regard to Bezeq and Hot.

In addition, in November 2011 the Ministry of Communications published in a hearing about proposed regulation of the underwater international telecommunications connection from Israel that would impose certain limitations on agreements with Mediterranean Nautilus Ltd. and Mediterranean Nautilus (Israel) Ltd., or collectively Med Nautilus, Netvision's provider, which would limit the discounts and capacity Med Nautilus may provide. Adoption of such changes may harm Netvision's results of operations and competitive position by forcing Netvision to purchase capacity at less favorable prices.

Netvision is exposed to risks relating to network infrastructure and information systems and is dependent on services it receives from its external suppliers; integration of Netvision's information systems may cause us operating difficulties and expenditures.

Netvision does not own an independent network for providing the services it offers to its customers. Therefore, Netvision is dependent on its infrastructure providers, such as Med Nautilus, which provides underwater international telecom connections, and Bezeq and Hot, which provide broadband connectivity and wireline infrastructure. In some cases, these providers are virtually the sole providers of such infrastructure and cannot be replaced. Should a landline wholesale market materialize, Netvision's dependency on Bezeq and Hot would increase, as Netvision would need to acquire additional services from them for the provision of internet infrastructure, as well as for the provision of IPTV services at competitive prices to its customers. Should we enter an agreement for the purchase of broadband infrastructure services with IBC, Netvision would be dependent on IBC for such services. Netvision is also dependent on foreign telecommunications operators for its international ISP and telephony communications. Therefore, termination or amendment of terms of an agreement with any of the infrastructure providers or with some of the foreign operators at once, disruption in or refusal to provide such infrastructure services, as well as regulatory changes affecting the terms of infrastructure services that Netvision receives, may

Table of Contents

have a material adverse effect on Netvision's ability to provide its services to customers or the profitability of providing such services.

Netvision's operations are dependent on various information systems. The unauthorized entry to or disruption of operation of these information systems, including due to cyber attacks, may result in damage to Netvision and its customers, including due to inability to provide certain services or provide them with disruptions or inability to bill for services rendered, loss of data of Netvision or that of its customers stored with Netvision, all of which may expose Netvision to legal claims and liabilities. Further, any successful attacks on Netvisions' customers' information systems, protected by Netvision's data security products, may also expose Netvision to legal claims and liability.

Our merger with Netvision and the offering of bundles of services provided by both companies, increased the number of information systems involved in the billing process of our customers as well as the duplication of other information systems used by the companies, resulting in some cases in cumbersome procedures, inefficient usage of resources and lack of uniformity. The process of integrating Netvision's information systems into our information systems may result in unforeseen operating difficulties and large expenditures and may require significant management attention that would otherwise be available for our ongoing business. Further, the replacement of systems or change of processes may result in substantial malfunctions in our sales and retention activities, errors in billings or other processes, which may lead to loss of revenues, legal claims and regulatory sanctions.

Alternate technology may cause a decline in Netvision's international calling services.

In recent years there has been a decline in use of ILD services through international operators such as Netvision. This is due to, among other things, the development of alternate technologies, such as VoIP, which enable international calls without the services of international operators. These technologies also pose an alternative to landline communications. If this trend continues and alternate technologies improve or if new ones are developed, competition in the market will increase, which may have a material adverse effect on Netvision's results of operations.

Risks Relating to Operating in Israel

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

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

Table of Contents

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

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

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

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

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

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

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

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

Risks Relating to Our Ordinary Shares

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

Our largest shareholder, DIC, holds approximately 41.89% of our outstanding ordinary shares, as of December 31, 2013. The market price of our ordinary shares could decline as a result of future sales by DIC or other existing shareholders or the perception that these sales could occur. DIC sold approximately 5% of our outstanding shares outside the United States in 2011 and approximately 1.7% of our outstanding shares in 2013. Sales may be made pursuant to a registration statement, filed with the U.S. Securities and Exchange Commission, or the SEC, pursuant to the terms of a registration rights agreement or otherwise, or in reliance on an exemption from the registration requirements of the Securities Act, including the exemptions provided by Rule 144 or Regulation S. Any decline in our share price could also make it difficult for us to raise additional capital by selling shares.

In addition, under our option plan, options are subject to vesting schedules but vesting will be accelerated upon certain events including any sale or other disposition, of all or substantially all, of the outstanding shares of us. As of December 31, 2013 we had 2,965,964 shares reserved for issuance upon the exercise of options. See "Item 6. Directors, Senior Management and Employment – E. Share Ownership – 2006 Share Incentive Plan".

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

In December 2013, the law for the promotion of competition and the mitigation of concentration was enacted by the Israeli parliament. The law, in material part: (1) imposes limitations on the holdings by a significant corporation that is not in the financial sector in a significant corporation in the financial sector or the holdings of both kinds of corporations under common control and on the possibility of serving as a director in both a significant non-financial corporation and a significant financial corporation; (2) imposes a two layer limitation on the total number of reporting corporations (layers) in pyramidal structure (for existing pyramidal structures of three layers - after a transition period of six years and of four layers – after a transition period of four years); (3) strengthens the corporate governance rules applicable to public companies in Israel, and sets additional limitations on certain transactions in which a controlling shareholder has a personal interest, strengthens the independence requirements of external directors and requires that within six months and during the said transition period in companies that are third layer and up in a pyramidal structure - the majority of the board of directors be independent, as defined in the Israeli Companies Law, and that the number of external directors be half the number of the company's directors less one (rounded upward) but not less than two (such external directors to be nominated by a shareholders meeting that shall take place within additional three months); (4) authorizes the Israeli Minister of Finance or bodies authorized by it to set limitations regarding the aggregate credit that may be provided by financial institutions to a corporation or a business group (defined as a controlling shareholder and the corporations under its control); and (5) sets additional procedures including involving the committee of mitigation of concentration designated to take into consideration competitive and control concentration factors prior to any allocation of rights in public assets (including in the communications field) by the relevant governmental authorities. The IDB group is a pyramidal structure. Prior to the closing of the creditors' arrangement in IDB, the IDB group has more than three layers of companies and we are a fourth layer company in the pyramidal structure of the IDB group. Following such closing, we shall become a third layer company in the pyramidal structure of the IDB group. Accordingly, the law will require us to change the composition of our board of directors. In addition, the new procedures set in the law in relation to allocation of rights in public assets, could have an adverse effect on our ability to renew our cellular license and receive additional frequencies. The law may also adversely affect our ability to raise debt or other aspects of our business.

ITEM 4.INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

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

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

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

DIC, a subsidiary of IDB, currently directly and indirectly holds approximately 41.89% of our share capital and the voting rights in respect of an additional approximately 3.43% of our share capital.

Table of Contents

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

Acquisition of Netvision Ltd. during 2011

On August 31, 2011, we completed the acquisition of 100% of the share capital of Netvision for a total consideration of approximately NIS 1.57 billion ($452 million) pursuant to a merger agreement dated June 15, 2011, by and among our Company, Netvision and a wholly owned subsidiary of our Company, which we formed solely for effecting the merger transaction. Following the consummation of the merger transaction, Netvision became a wholly owned subsidiary of our Company.

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

Netvision is a leading company in the Israeli telecommunications market and is engaged in two primary businesses: provision of internet connectivity and related services (ISP); and provision of telephony services consisting mainly of international calling services, operator services, teleconferencing services and landline telephony services. Netvision's ISP and ILD licenses were granted by the Ministry of Communications in 1994 (and replaced in 2002) and 1997, respectively and are valid until 2017 and 2025, respectively. In addition, Netvision is engaged in other areas such as custom internet applications and data security products. For further details, see "Item 4.B - Business Overview - Netvision".

2012: A year of radical adverse changes

Following the negative changes we encountered in 2010-2011 due to regulatory pressures, 2012, particularly the second half of 2012, was characterized by additional radical changes in market conditions, which, in turn, resulted in radical adverse effects on our results of operations. The entry of additional competitors in mid 2012 offering Unlimited Packages for substantially lower tariffs than market level at that time, has dramatically increased the competitive pressure, leading the market to offer competing Unlimited Packages with a focus on price at the expense of service quality and resulting in substantial price erosion and decreased profitability for us, which led to a decrease in our net income, operating profit and EBITDA for 2012 by 35.6%, 30.7% and 19.1%, respectively, in comparison to 2011. These trends have continued into 2013, leading to a decrease in our net income, operating profit and EBITDA by 45.8%, 33.9% and 23.8%, respectively, in comparison to 2012. Although our results of operation in the second through fourth quarters of 2013 reflect certain steadiness, those trends are expected to continue to further adversely affect our results of operations. See Item 3. Key Information – D. Risk Factors – Risks Related to our Business - We face intense competition in all aspects of our business" and "Item 4. Information on the Company - B. Business Overview – Competition" for additional details.

During 2012 and 2013, we continually implemented aggressive efficiency measures in order to mitigate those adverse effects. Our efforts to adjust our group's operations to changing market conditions included aggressive reduction of head count, reduction and integration of units, adjustment of procedures, reduction of expenses and investments, reduction of our sales and service lineup, including by closing and uniting points of sale and walk in centers and eliminating duplicates, reducing call centers and transferring to more cost effective distribution channels, transferring units to other locations in order to save expenses, cutting our investment in advertising and substantially reducing the amount of calling plans offered to our customers and focusing on Unlimited Packages. Those measures led to an annual saving run rate of approximately NIS 640 million, based on comparison of fourth quarter 2013 with fourth quarter 2011 expenses. We intend to continue to implement organizational and personnel changes in our continued effort to mitigate the adverse effects of the increased competition in all areas in which operate. We cannot guarantee the success of these measures, including given the recent organization of our and Netvision's employees under a representing labor union.

Strategic network sharing agreements in 2013

The end of 2013 was marked by two strategic agreements between two groups of MNOs: In November 2013, Partner and Hot Mobile announced a network sharing agreement for a term of 15 years, according to which the two companies will create a 50%-50% joint venture to operate and develop a cellular network that will be shared by both companies, which is currently subject to regulatory approvals; and in December 2013, we entered an agreement with Pelephone and Golan for the construction and operation of a shared 4G radio network, with costs to be generally divided equally among the three operators, and an agreement with Pelephone for the sharing of passive elements of cell sites for existing networks, with costs to be generally equally divided between Pelephone and us, both for a period of at least 15 years. Under a third agreement, we agreed to provide Golan an Indefeasible Right of Use ("IRU") to our 2G and 3G radio networks for at least five years, which replaces our current national roaming agreement. All agreements are subject to the approval of the Ministry of Communications and the Israeli Antitrust Commissioner. We can provide no assurance that such approvals will be granted, and if so, under what conditions.

Such sharing agreements, if approved and executed, are expected to result, in a few years, in material operating expense and capital expenditure savings, which in turn may further increase the intense competition in the cellular market. However, our 2G and 3G network sharing agreement with Golan, if approved, would entail substantial decrease of our annual hosting revenues from Golan. For additional details see "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business" and "Item 4. Information on The Company – B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements".

Principal Capital Expenditures

Our accrual capital expenditure in 2011, 2012 and 2013 amounted to NIS 520 million, NIS 537 million and NIS 384 million, respectively. Accrual capital expenditure is defined as investment in fixed assets and intangible assets, such as spectrum licenses, rights of use of communications lines, UMTS networks' enhancement and expansion and development of new products and services during a given period.

B. BUSINESS OVERVIEW

General

We are the largest provider of cellular communications services in Israel based upon number of subscribers and estimated market share as of December 31, 2013. Upon launch of our services in 1994, we offered significantly lower prices for cellular communications services than the incumbent provider and transformed the nature of cellular telephone usage in Israel, turning it into a mass market consumption item. We surpassed the incumbent cellular operator and became the market leader in terms of number of subscribers in 1998 and, despite the entry of additional competitors, we have continued since then to have the highest number of subscribers. As of December 31, 2013, we provided services to approximately 3.092 million subscribers in Israel with an estimated market share of 30.6 %. Our closest competitors had estimated market shares of 29.1% and 26.3%, respectively. Hot Mobile was estimated to have a market share of 8%, Golan was estimated to have a market share of 4.1% and the MVNOs together, were estimated to have a market share of 1.9%. In the year ended December 31, 2013, we generated revenues of NIS 4,927 million ($1,419 million), EBITDA of NIS 1,335 million ($385 million), and operating income of NIS 651 million ($188 million). See note 2 to the table in “Item 3. Key Information – A. Selected Financial Data” for a definition of EBITDA. In 2011, our results of operations were adversely affected by regulatory changes, mainly the reduction of interconnect fees and the increased competition following the reduction of Early Termination Fees. In 2012 and 2013 our results of operations were even more adversely affected by the increased competition following the launch of UMTS services by Hot Mobile and Golan in May 2012, which led to accelerated price erosion as well as increased churn rate. Although our results of operation in the second through fourth quarters of 2013 reflect certain steadiness, we estimate that the intensified competition will continue to adversely affect our results in the future. See "Item 5. Operating and Financial Review and Prospects. – A. Operating Results – Overview –General ".

We offer a broad range of cellular services through our cellular networks covering substantially all of the populated territory of Israel. These services include basic and advanced cellular telephone services, text and multimedia messaging services and advanced cellular content and data services. We also offer international roaming services in 179 countries as of December 31, 2013. We offer our subscribers a wide selection of handsets from various leading global manufacturers, as well as extended warranty and repair services on most handsets we offer. We also offer landline transmission and data services to business customers and telecommunications operators and, since July 2006, we offer landline telephony services.

Following the completion of the acquisition of Netvision in 2011, we expanded the range of our telecommunications services and offer, through Netvision, ISP services to private and business customers and additional telephony services, such as international calling services, landline telephony services to the business and private sectors and teleconferencing services. We also provide through Netvision additional services such as, cloud services and data protection products solutions based on products and services offered by third party vendors. For further details on Netvision's business and operations, see "- Netvision" below.

We sell our various cellular services on a stand-alone basis or bundled with certain other services offered by Netvision and us.

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

Table of Contents

	Year Ended December 31,				
	2009	2010	2011	2012	2013
Cellular subscribers (end of period) (in thousands)(1)	3,292	3,394	3,349	3,199	3,092
Revenues (in NIS millions)	6,483	6,662	6,506	5,938	4,927

(1) Subscriber data refers to active cellular subscribers. We use a six-month method of calculating our cellular subscriber base, which means that we deduct subscribers from our cellular subscriber base after six months of no revenue generation and activity on our network by or in relation to the post-paid subscriber and no revenue generating calls or SMS for pre-paid subscriber. The six-month method is, to the best of our knowledge, consistent with the methodology used by other cellular providers in Israel. During the fourth quarter of 2011, we removed approximately 52,000 subscribers from our subscribers base, which included subscribers using our TDMA network who had not requested a transfer to our other networks following the shutdown of our TDMA network as of December 31, 2011, and subscribers who ceased using our services following a change to our policy which previously allowed subscribers to change from post to prepaid subscription as a result of the reduction of Early Termination Fees in the cellular market in early 2011. These changes affected other key performance indicators. In the fourth quarter of 2012, we removed approximately 138,000 M2M (machine to machine) subscribers from our subscriber base, following an addition of a revenue generation criterion of at least NIS 1 of accumulated revenues over the six months period, for M2M subscribers, to our cellular subscribers calculation policy. This means that any M2M subscriber generating less than NIS 1 of accumulated revenues or unable to reach that sum contractually, will not be counted as a subscriber. This change had an immaterial effect on our ARPU for 2012. In the fourth quarter of 2013 we removed approximately 64,000 subscribers from our subscribers base, following a change to our prepaid subscribers counting mechanism. As a result of such change, we add a prepaid subscriber to our subscribers base only upon charging a prepaid card and remove them from our subscribers base after six months of no revenue generating calls or SMS. Following each of these changes, we have not restated prior subscriber data to conform to such changes.

The Telecommunications Industry in Israel

The following table sets forth selected macro statistics about Israel at and for the year ended December 31, 2013:

Population (millions, at end of year)	8.1
GDP ($ billions) (1)	292
GDP per capita ($ 000) (1)	36.1
Exports of goods & services ($ billions) (1)	94
CPI change	1.8%
Long-term local currency sovereign credit rating by S&P	A+(Stable)
Unemployment rate (average for nine months ending September 2011)	6.3%

(1) 2013 forecast, translated to USD based on the average representative rate of exchange for the year

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

The size of Israeli telecommunications revenues in 2012 was approximately NIS 26 billion. Telecommunications services consist of several segments, which are highly competitive. Of the total telecommunications revenues in 2012, approximately 51% was comprised of cellular services, approximately 29% was local landline voice and Internet access services, approximately 5% was international voice services, approximately 15% was multichannel television services. These figures have changed substantially in 2012, reflecting a downsizing of the overall revenues in the cellular market, as a result of the increased competition and accelerated price erosion. For additional details, see "Item 4. Information on the Company – B. Business Overview – Competition". Cellular spending in 2013 was approximately 1.3% of GDP, in line with developed European economies and the United States.

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

Table of Contents

Communications groups – structural separation

The Israeli telecommunications market is currently dominated by four communications groups: Bezeq, Hot, Partner-012 Smile and Cellcom–Netvision . See "-Cellular Services and Products" below for additional details. Each of the Bezeq and Hot groups are subject to certain structural separation requirements as a result of being the incumbent and monopoly in their respective core business – landline and multichannel television services. That structural separation was relaxed in 2010, allowing Bezeq and its subsidiaries to offer a bundle of services under certain conditions to private customers (including the condition that each of the services in the Bezeq bundle will be available for sale separately under the same terms as in the bundle; and the requirement that Bezeq allows its competitors to participate in a similar bundle - if it includes ISP, VOB or ILD services - under the same terms and equally markets such bundles as its own bundle (the second requirement does not apply to the sale of the bundle by a subsidiary of Bezeq)), and with respect to business customers as well, in July 2012. The offering of a bundle of services, including cellular services by another group, will relax the conditions under which Bezeq may provide a similar bundle. We have offered a bundle of services, including cellular services since mid-2012 and Bezeq had offered a bundle of services, including cellular services, for a short period thereafter. Further, in November 2013, the Israeli Antitrust Commissionaire published a draft of the terms under which it is considering approving a merger between Bezeq and Yes, Bezeq's subsidiary providing multichannel pay-TV for the public's comments. Although the Hot group is also subject to structural separation limitations between its multi-channel television, ISP, cellular and landline services, it was allowed to offer a bundle of landline, multichannel television and internet infrastructure services and has further requested the Ministry of Communications to annul the structural separation limitations between Hot Mobile and Hot, after already lifting certain limitations in 2011, allowing Hot and Hot Mobile to sell and market each other's services and exchange information. The Hot group was previously allowed to sell a bundle including ISP services under certain conditions (similar to the ones imposed on the Bezeq bundle of services, in relation to the ISP component only). Hot offers a bundle of services excluding cellular services (other than a bundle of cellular services with ISP services offered by its subsidiaries Hot Mobile and Hot-Net) although the Ministry of Communications has already allowed Hot and Hot Mobile to sell and market each other's services and exchange information. Bundle offerings have accelerated and are expected to accelerate price erosion in each of the services included. For details regarding the annulment of such structural limitations when a wholesale market of landline services is executed or following a proposed change to the ILD services regulation, if adopted and applied to the Bezeq and Hot groups, even before a landline wholesale market is created which will allow Bezeq and Hot and their subsidiaries to offer bundles of services without limitation, see "Item 4. Information on The Company – B. Business Overview – Competition", "-Government Regulations – Landline" and "Nevision - ISP Business - Competition" and "Nevision - Telephony Business - Competition".

Cellular services

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

Table of Contents

The Israeli cellular market is highly penetrated. The market reached an estimated penetration rate (the ratio of cellular subscribers to the Israeli population) at December 31, 2013, of approximately 124%, representing approximately 10.1 million cellular subscribers.

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

	December 31,				
	2009	2010	2011	2012	2013
Total subscribers (millions)	9.5	9.8	9.8	10	10.1
Cellular penetration (%)	127 %	128 %	128 %	128 %	124 %

Source: Reported by Cellcom, Partner, Pelephone and Hot Mobile.

There are currently five MNOs in Israel, Cellcom, Partner, Pelephone, Hot Mobile and Golan; and five active MVNOs, Rami Levy Hashikma Communications Marketing Ltd., or Rami Levy, Home Cellular Ltd., or Home Cellular, Alon Cellular Ltd., or Alon Cellular, Azi Communications Ltd., or Azi and Cellact Communications Ltd., or Cellact. We estimate that the distribution of cellular subscribers among these operators as of December 31, 2013 was: Cellcom 30.6%, Partner 29.1%, Pelephone 26.3%, Hot Mobile 8%, Golan 4.1% and the MVNOs 1.9%. Subscriber data is based on public information as of September 30, 2013, other than with respect to Golan and the MVNOs, which is based on our estimate. However, there is no uniform method of counting subscribers. Hot Mobile and Golan commenced their UMTS operation in May 2012. Rami Levy, Home Cellular, Alon Cellular Azi and Cellact, all mobile virtual network operators, commenced operations in December 2011, April 2012 , May 2012, July 2013 and December 2013, respectively. An additional seven entities received MVNO licenses during 2010, 2011 and 2013 but to date have not commenced operating. We do not know if and when the other MVNO licensees will commence operations.

We are controlled by DIC, a subsidiary of IDB, and started operations at the end of 1994. In August 2011, we completed the purchase of all outstanding shares of Netvision.

Partner started operations in 1998 and is controlled by Scailex, an Israeli company listed on the TASE, and by its affiliate Suny, the official importer of Samsung cellular phones to Israel (both indirectly controlled by Israeli businessman Mr. Ilan Ben-Dov) and S.B. Israel Telecom Ltd. (indirectly controlled by the media entrepreneur Haim Saban).

Pelephone is a wholly-owned subsidiary of Bezeq, the incumbent landline operator and started operations in 1986. Bezeq is controlled by B Communications Ltd., or B Communications, (formerly named 012 Smile Communications Ltd., or Smile). B Communications is an Israeli company traded on the NASDAQ and the TASE and controlled by Internet Gold Golden Lines Ltd., or Internet Gold. Both B Communications and Internet Gold form part of the Eurocom Communications Group, or Eurocom, controlled by the Israeli businessman Shaul Alovich, which includes Eurocom Cellular Communications Ltd. - the official representative of Nokia cellular phones in Israel.

In January 2010, Ampal-American Israel Corporation, or Ampal, a company traded on the NASDAQ and TASE completed the purchase of Smile's on-going business, through its indirect wholly owned subsidiary – 012 Smile Telecom Ltd, or Smile Telecom. In March 2011, Partner announced the completion of the purchase of all outstanding shares of Smile Telecom.

45

Table of Contents

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

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

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

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

1986	Bezeq and Motorola create a joint venture called "Pelephone", which becomes Israel's first cellular operator. Pelephone launches N-AMPS services
1994	Cellcom awarded a license and launches TDMA services
1997	Cellcom introduces first pre-paid plan to the market
1998	Partner awarded a license and launches GSM services
1998	Pelephone launches CDMA services
2001	Ministry of Communications allocates additional 2G and 3G cellular frequencies for existing cellular operators and for the licensing of a new operator
2001	MIRS (currently named Hot Mobile) becomes Israel's fourth cellular operator with iDEN services
2002	Cellcom launches GSM/GPRS services
2003	Cellcom launches EDGE services
2004	Partner launches UMTS services Pelephone launches EVDO services
2006	Cellcom launches full scale UMTS/HSDPA services
2007	Partner launches HSDPA services
2008	Cellcom launches HSUPA services
2009	Pelephone launches UMTS/HSPA services
2010	Ministry of Communications provides MVNO licenses; Cellcom and Pelephone launch HSPA+ services
2011	Mirs (currently named Hot Mobile) and Golan awarded UMTS operator licenses Rami Levy, MVNO operator, commences operations Cellcom stops operating its TDMA network
2012	Hot Mobile and Golan commence operation of UMTS network, using national roaming

	Home Cellular and Alon Cellular, MVNO operators, commence operations
2013	Azi and Cellact, MVNO operators, commence operations; MNOs enter network sharing agreements

Key characteristics of the Israeli cellular services market

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

High cellular telephone penetration. The estimated penetration rate in Israel as of December 31, 2013 was 124%. Penetration rate is calculated by dividing the total number of subscribers by the Israeli population. The Israeli population does not include foreign workers and Palestinian subscribers who are included in the number of subscribers. The number of subscribers also includes subscribers with more than one subscription to a cellular network (including data only subscriptions alongside a cellular subscription) and may also include

Table of Contents

subscribers to more than one network including those in the process of switching networks. As a result, the effective penetration rate after adjustment for these factors is likely to be lower than 124%. The regulatory reduction to a negligible amount and subsequent annulment of Early Termination Fees in the cellular market, has reduced the number of subscribers with more than one subscription.

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

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

High percent of postpaid customers. The Israeli cellular market has a high percent of Postpaid customers (69%) compared to other developed countries.

Annual churn rates. The average annual churn rate in Israel in 2013 is estimated to be approximately 34%, which is higher than the churn rates in other developed economies. This churn rate reflects an increase in churn rate in comparison to 2012 attributed to the regulatory changes implemented in 2011 and 2012 such as the regulatory reduction of Early Termination Fees to a negligible amount and the entry of additional competitors which led to the offering of Unlimited Packages at substantially lower prices or even for free, mainly for limited periods of time.

Wireline services

Landline services

Bezeq operates approximately 2.2 million lines (at the end of September 2013) and provides local landline services. The second largest competitor in landline telephony services is Hot, with approximately 680 thousand subscribers, which started landline operations in late 2003.

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

For a policy paper published by the Minister of Communications in May 2012, liaising the creation of a wholesale market of landline services in Israel and the annulment of certain structural limitations currently imposed on the Bezeq and Hot groups as well as a decision detailing the types of services to be provided under the wholesale market and hearings regarding wholesale maximum prices, see "-Government Regulations – Landline " below.

We and Netvision (our wholly owned subsidiary) entered this market in 2006. Partner entered this market in 2007, Smile Telecom entered this market in 2006 and Bezeq International (VOB only) entered this market in 2009, bringing to a total of seven players.

Table of Contents

Broadband and internet services

The Israeli broadband market is characterized by a regulatory structural separation between the providers of the internet infrastructure and the internet access service. Based on Bezeq and Hot reports, at the end of September 2013, there were approximately 1.985 million subscribers, and the household penetration rate was approximately 68%. The only providers of infrastructure in the market are Bezeq through DSL technology and Hot through cable. DSL services were launched by Bezeq in 2000. Cable modems, which account for the rest of the market, have been available since 2002.Hot completed the upgrade of its network to UFI (Ultra Fast Internet) network in 2010 and Bezeq completed upgrading its network to high speed NGN (New Generation Network) in 2012.

In August 2013, IBC received licenses for the provision of broadband infrastructure services on the IEC's optic fibers infrastructure to other licenses holders as well as directly to large business customers. IBC is expected to commence provision of such services in 2014.Transmission and landline data services are provided by Bezeq, Hot, Partner (who acquired Med-1's operation in 2006) and us. These services are provided to business customers and to telecommunications operators.

Internet access is currently provided by three major Internet service providers, or ISPs: Netvision (our wholly owned subsidiary), Bezeq International, Smile Telecom (a subsidiary of Partner), and some other smaller players including Hotnet (a subsidiary of Hot). We estimate the market share of the three largest ISPs to be similar, with each holding around 30% of the market and Hotnet reaching approximately 5% market share. All three major providers are also suppliers of international voice services.

Until 2011, the Israeli ISPs were connected to the World Wide Web through an underwater communications cable owned and operated by Mediterranean Nautilus Ltd., a subsidiary of Telecom Italia SpA. Bezeq International and the Tamares Group's (owned by the British businessman Poju Zabloudowicz) underwater communications cables commenced operations in 2011 and 2012, respectively. These additional underwater cables have increased the effective bandwidth of international data connectivity and reduced costs for ISPs.

International voice services

International voice services in Israel have been open for competition since December 1996. Until then, Bezeq International, was the only supplier of such services. There are currently eight players in this market. The three major players are: Bezeq International, Netvision (our wholly owned subsidiary) and Smile Telecom (Partner's subsidiary). The other players are: Xfone Communications, Telzar International Communications Services Ltd., or Telzar, and Rami Levy, Golan and Hot (through wholly owned subsidiaries or affiliates). The market share of the three major players is similar, with each having approximately 30-33% market share. Entry barriers to this market are low, technological alternatives such as Skype are commonly used and competition is intense.

Multichannel television

The multichannel pay-TV market is also highly penetrated with levels above those of most developed economies. Multichannel pay-TV services are provided by Hot and by YES, a subsidiary of Bezeq. Digital terrestrial television (DTT) broadcasting was commercially launched in 2010, and may affect the level of competition in this market and attract additional players, that may use the DTT as a basic service to be bundled with additional IPTV or Over

Table of Contents

the Top (OTT) channels. Both we and Partner have announced we are developing such a solution and recently according to publications in the media Golan and Rami Levy also announced they are considering entering this market, using IPTV / OTT and DTT solution. A wholesale market for landline services would facilitate the entry of IPTV competitors. The Israeli government decided to enlarge the DTT service from 5 channels to 16 channels, some of which are scheduled for 2014.

See "Item 4. Information on the Company – B. Business Overview – Government Regulations – Landline " for the Minister of Communications' policy document regarding its decision to annul structural limitations in the communications market and create a wholesale market for landline services.

Business Strategy

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

- Offering our customers comprehensive mobile and wireline solutions. We offer our customers a wide range of mobile and wireline telecommunications services. We offer a one stop shop for the group's portfolio of services, in both customer service and sales and offer a comprehensive communication packages, comprising of our and Netvision's services, as we did with the "Cellcom Total" and "Cellcom Total for businesses" pricing plans, which have proven to strengthen loyalty and increase customer satisfaction. In addition, we intend to continue to leverage our leading position and large market share in those businesses for cross-sales and the offering of new services which are found to be synergetic to those businesses, in order to increase our overall revenues and market share.

- Developing our Mobile Data. Mobile Data is a significant factor in our group's customer acquisition and retention strategy, given the growing demand for data usage and the importance customers attribute to the quality and speed of data services. Accordingly, during 2013, we continued to upgrade our Carrier Ethernet network and upgraded our ISP network backbone in Israel and abroad to support the growing demand for capacity. Also, we put an emphasis on marketing data products which enable data usage and services, including smartphones, tablets and laptops. We intend to continue to invest in the improvement and upgrade of our Carrier Ethernet network and ISP network, to enhance its capacity, as well as invest in a 4G technology, in order to permit higher-quality and higher-speed multimedia content transmission, through larger capacity availability, and would also allow us to offer additional new 4G data products.

- Growing in wireline services. We intend to continue to expand our landline business with both private and business customers. For private customers, we provide ISP, home telephony services (via Bezeq's and Hot's infrastructure) as well as ILD services. The development of wholesale landline services, if and when becoming available and efficient, will enhance our ability to offer such services and compete with the incumbents, Bezeq and Hot, as well as other competitors in these markets. For details of the wholesale market see also "Item 4. Information on the Company – Government Regulations – Landline". For business customers, following the merger with Netvision, we provide a wide range of telecommunications services, including ISP, ILD, landline telephony services, as well as hosting and data security services. These, combined with approximately 1,700 kilometer inland fiber-optic network, our microwave infrastructure, and Netvision's high penetration in business parks and industrial centers, provide us with

Table of Contents

the ability to selectively offer cost-efficient landline telecommunications solutions to business customers and integrated offerings of landline and cellular services.

- Offer new services that will complete our offering as a telecommunications group and are synergetic to our core businesses. We continue to develop new complementary businesses that will leverage our varied capacities and that are synergetic to our core business. Our OTT TV solution is in the final stages of development, and would allow us, when and should we decide to launch it, to offer a low cost attractive alternative to the traditional cable and satellite television services currently offered in Israel by Hot and Yes (a subsidiary of Bezeq).We have identified the NFC (Near Field Communication) based cellular credit card services and the television services over the internet (known as Over the Top TV, or OTT TV) as potential synergetic and complementary services to our core business. We are at the final stages of development and preparing for commercial launch of the cellular credit card services, in cooperation with major third parties and offer an innovative alternative to the traditional use of credit cards.

- Optimization of cost structure. We continue our efforts to reduce costs and improve our efficiency. In 2013 we continued to utilize the synergies created by the acquisition of Netvision, including transfer of our calls centers located in Haifa to Netvision's facilities in Haifa, in order to optimize associated costs. We have also taken other aggressive efficiency measures, through adjustments to the existing head count, a reduction in overhead expenses and improvement of work processes. We plan to continue streamlining our costs in 2014, including organizational and personnel changes, and more so, through the network sharing agreements we entered with Pelephone and Golan, should they receive the necessary regulatory approvals.

Cellular Services and Products

As of December 31, 2013, we provided cellular communications services to approximately 3.092 million subscribers, including basic cellular telephony services, text and multimedia messaging, data and other value-added services as well as handset sales. Not all services are supported by all handsets or by all of our networks.

We offer our cellular subscribers a variety of usage and segment pricing plans and bundles combining cellular services with other communications services our group offers, such as ISP, landline and ILD services for home and IP switchboard, ISP, landline and ILD services for the office. We offer two methods of payment: pre-paid and post-paid. Pre-paid services are offered to subscribers who pay for our services prior to obtaining them, usually by purchasing our “Talkman” pre-paid cards or “virtual” Talkman cards. Post-paid services are offered to subscribers who are willing to pay for our services through banking and credit arrangements, such as credit cards and direct debits. Following the regulatory annulment of Early Termination Fees in the cellular market, our pricing plans do not include a commitment to purchase our services for a predefined period, other than in large business agreements. The marketing of Unlimited Packages for a fixed low monthly sum resulted in the transfer of many pre-paid subscribers into such post-paid Unlimited Packages.

Basic cellular telephony services

Our principal cellular service is basic cellular telephony. In addition, we offer many other services with enhancements and additional features to our basic cellular telephony

Table of Contents

service, including voice mail, cellular fax, call waiting, call forwarding, caller identification and conference calling.

We also offer both an outbound roaming service to our subscribers when traveling outside of Israel and an inbound roaming service to visitors to Israel who can “roam” into our network. As of December 31, 2013, we had commercial roaming relationships with 564 operators in 179 countries based on the standard agreements of the GSM organization (an umbrella organization in which all the cellular operators operating with GSM technology are members). In addition, as of December 31, 2013, we had 3G roaming arrangements with 327 of these operators, in 113 countries, enabling our 3G roamers to use data services abroad.

Value-added and data services

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

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

We have established relationships with content providers to provide us content for our value-added services, including Logia Development and Content Management Ltd., or Logia, to manage and develop cellular content in Israel exclusively for us.

Handsets

We sell a wide selection of handsets (which for purposes of this report may include other types of cellular end-user equipment, such as tablets) designed to meet individual preferences. Prices of handsets vary based on handset features and special promotions. We offer a variety of installment plans for handsets and discounts for short term installment plans, however in most cases, handsets are to be paid in 36 monthly installments. We offer a variety of handsets from world-leading brands such as Apple, LG, Nokia, Samsung, Sony, HTC, ZTE, Alcatel and RIM. The vast majority of our handset sales in 2013 have been by Apple and Samsung. The handset models we sell offer Hebrew language displays in addition to English, Arabic and Russian (in most of the models). We are also required to provide cellular services to subscribers who did not purchase their handsets from us, provided that the handset model complies with the standards set by the Ministry of Communications. We offer our subscribers an extended handset warranty as well as repair services for most handsets, in approximately 40 locations, including through our wholly owned dealer. See also "Customer Care" below.

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

In November 2001, we entered an agreement with Suny for the provision of maintenance and repair services which will be provided to us in relation to Samsung products that we shall purchase from Suny. Other conditions, including price of products, are agreed between us and Suny from time to time.

Table of Contents

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

Landline services

In addition to our cellular services, we provide landline telephony, transmission and data services, using our approximately 1,700 kilometers of inland fiber-optic infrastructure and complementary microwave links. We have offered transmission and data services since 2001, landline telephone service since July 2006, and advanced, voice and data landline services since 2008, both to selected business customers. In addition, Netvision also offers landline services to both private and business customers, focusing on the private sector. For further details, please see "-Netvision" below .

An effective wireline wholesale market and the provision of broadband infrastructure services by IBC, if and when made available, will facilitate our and Netvision's growth and allow us (as well as our competitors) to provide a wider selection of services at competitive terms. The annulment of the structural limitations on the Bezeq and Hot groups and change of the supervision on Bezeq tariffs from fixed to maximum tariffs could adversely affect our ability to compete with Bezeq and Hot. See "Item 4. Information on the Company – Government Regulations –Landline" for additional details regarding the wireline wholesale market and the grant of licenses to IBC for the provision of broadband infrastructure services on the IEC's optic fibers infrastructure to other licenses holders as well as directly to large business customers.

Network and Technology

General

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

Our “third generation” UMTS/HSPA+, or high-speed downlink packet data access, technology, offers full interactive multimedia capabilities with current data rates of up to 42 Mbps on the downlink path and up to 4 Mbps on the uplink path. In 2014 we intend to continue to upgrade our network to support the increasing demand for data traffic, while maintaining its quality of services. This network, considered to be a “3.9/4G” technology, is a network that uses the same core as our GSM/GPRS/EDGE network. Our UMTS/HSPA+ network covers substantially all of the populated territory in Israel. Moreover, our UMTS/HSPA+ network supports new types of services that require higher throughput and lower delay, such as video conferencing.

Our “second generation” GSM/GPRS/EDGE 1800MHz network allows for voice calls, data transmission and multimedia services, like video streaming and video live (using the EDGE technology), although at slower speeds than our UMTS/HSPA+ network. Our GSM/GPRS/EDGE technology is an advanced second-generation technology and considered to be a “2.75G” technology. It enables us to deliver multimedia and services at speed rates that are higher than the rates offered through regular "second generation" digital cellular technology. Packet data rates vary from 50 Kbps to 200 Kbps, depending mainly on handset capabilities. In addition, in the case of coverage gaps and for services supported by our GSM/GPRS/EDGE technology, the network provides an adequate fallback and capacity relief for our UMTS/HSPA+ network by means of smart features and network load sharing. Most of our traffic uses the UMTS/HSPA+ network.

In December 31, 2011, we discontinued our separate network using our initial TDMA 850MHz wireless technology, which was a "second generation" technology.

Our transmission network is comprised of approximately 1,700 kilometers of inland advanced fiber-optic cables that, together with our microwave infrastructure, enable us to provide our customers with telephony and high speed and high quality transmission and data services. Our transmission network is strategically deployed in order to cover the major portion of Israel's business parks and permits us to provide our own backhaul services while reducing our need to lease capacity from Bezeq, the incumbent landline operator in Israel.

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

We are in the process of selecting a vendor for a 4G network and have further entered a network sharing agreement for the construction and operation of a shared 4G radio network with Pelephone and Golan.

Network and cell sites sharing agreements

In December 2013, we entered into an agreement with Pelephone and Golan for the construction and operation of a shared 4G radio network, an agreement with Pelephone for the sharing of passive elements of cell sites for existing networks and an Indefeasible Right of Use ("IRU") agreement with Golan regarding our 2G and 3G radio networks.

Under the agreement in respect of the 4G radio network, the three operators will cooperate in obtaining frequencies for the 4G network. The 4G radio network is to be constructed and operated by a separate, newly created entity that will be equally owned by us and Pelephone and overseen by a steering committee comprised of representatives of all three operators, which will make strategic decisions regarding the 4G network by majority vote. Each operator will be required to purchase and operate its own core network. Costs shall generally be divided equally among the three operators, subject to certain conditions and limitations. The agreement is generally for a period of at least fifteen (15) years.

Under the agreement with Pelephone for passive cell site sharing, a newly created entity will manage and maintain all of the passive elements of cell sites and unify passive elements of our and Pelephone's cell sites, which are currently used for the 2G and 3G networks, and will also manage and maintain the radio networks for us and Pelephone, generally for a period of at least fifteen (15) years. Costs for site sharing shall be divided generally between us and Pelephone, subject to certain adjustments. Each operator shall bear its own costs for management and maintenance of existing networks and will continue to operate its own core network.

Finally, under the IRU agreement with Golan, Golan will be granted a right of use to our 2G and 3G radio network (generally for at least five (5) years and for as long as they are operational), which will replace Golan's current national roaming agreement with us. Golan shall continue to operate its own core network.

Effectiveness of the agreements is subject to the approval of the Ministry of Communications and the Israeli Antitrust Commissioner to all the agreements. We can provide no assurance that such approvals will be granted.

We expect that the sharing agreements, if approved, would result in substantial operating expense and capital expenditure savings to us, depending upon the amount and terms of passive cell site sharing that the newly created entity succeeds in accomplishing and the 4G radio network roll out. On the other hand, our 2G and 3G network sharing agreement with Golan, if approved, would entail substantial decrease of our hosting revenues from Golan. For risks relating to these agreements see "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We operate in a heavily regulated industry, which can harm our results of operations. In recent years, regulation in Israel has materially adversely affected our results ", " - We face intense competition in all aspects of our business" and "We may be adversely affected by the significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business."

Infrastructure

We have built an extensive, durable and advanced cellular network system, enabling us to offer high-quality services to substantially the entire Israeli populated territory. Since maintaining a high-quality network is a basic element in our business strategy, we seek to satisfy quality standards that are important to our subscribers, such as high voice quality, high data rate packet sessions, low "blocked call" rate (calls that fail because access to the network is not possible due to insufficient network resources), low "dropped call" rate (calls that are involuntarily terminated) and deep indoor coverage. Therefore, we have made substantial capital expenditures and expect to continue to make substantial capital expenditures on our network system, specifically in the construction of an LTE network. As of December 31, 2013, we had invested an aggregate sum of NIS 9.273 billion ($2.672 billion) on our network infrastructure since our inception in 1994 (not including investments made by Netvision).

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

Since 2010, we have enhanced and expanded both our UMTS/HSPA+ network and our GSM/GPRS/EDGE network, primarily in urban areas, by adding infrastructure to improve outdoor and indoor coverage including through UMTS/HSPA 850 MHz sites. As of the end of 2013, we had deployed UMTS/HSPA 850 MHz sites through substantially all of the populated areas of Israel and had substantially completed our UMTS/HSPA 850 MHz deployment.

We launched our SDH transmission network in 1999. It is based on Alcatel Lucent and ECI Telecom technology and covers substantially all of the populated areas in Israel, and

Table of Contents

is maintained by Alcatel Lucent and ECI Telecom. We launched our Carrier Ethernet network in 2010, based on Alcatel Lucent technology. It covers substantially all of the populated areas in Israel and is maintained by Alcatel Lucent.

Pursuant to the requirements of our license (as well as the licenses of the other telephony service providers in Israel), our network is interconnected, either directly or indirectly, to the networks of all other telephony service providers in Israel. Our network monitoring system provides around-the-clock surveillance of our entire network. The network operations center is equipped with sophisticated systems that constantly monitor the status of all switches and cell sites, identify failures and dispatch technicians to resolve problems. Operations support systems are utilized to monitor system quality and identify devices that fail to meet performance thresholds. These same platforms generate statistics on system performance such as dropped calls, blocked calls and handoff failures. Our network operations center is located in our Netanya headquarters. In addition, we have partial duplicate back up centers in Kiryat Gat and Ramle, located approximately 80 and 40 kilometers, respectively, south of Netanya and a disaster recovery plan, or DRP, for all our engineering systems.

Network design

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

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

Our primary objective going forward is to continually improve and upgrade our high speed UMTS/HSPA+ network, mainly by enhancing its capacity, in order to allow for the fast growth of data usage on our network. At the same time we intend to continue to perform extensive optimization work to provide our subscribers with maximum capability to support video and other broad-bandwidth content until we are able to implement 4G technology. Actual implementation of 4G technology will be dependent on the allocation of frequencies. See "Item 3. Risk Factors – We may be adversely affected by significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business".

Network performance

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

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

Table of Contents

Spectrum allocation

Spectrum availability in Israel is limited and is allocated by the Ministry of Communications through a licensing process. We have been allocated 2x10 MHz in the 850 MHz frequency band previously used by our TDMA network and currently by our UMTS/HSPA 850 MHz base stations, 2x17 MHz in the 1800 MHz frequency band used by our GSM/GPRS/EDGE network and 2 x 10 MHz 1900 - 2200 MHz frequency band used by our UMTS system. We believe that our available spectrum is sufficient for our current needs. However, since the demand for data continues to grow, we will be required to purchase additional spectrum in order to meet the growing demand for data consumption, preferably by 4G frequencies and technology. To the best of our understanding, the 1800MHz 4G spectrum currently available is insufficient to support separate LTE (4G) networks for all five of the Israeli MNOs. We were not allowed to participate in the UMTS spectrum tender published in September 2010 by the Ministry of Communications and there is no assurance that additional spectrum will be made available to us in the future to satisfy our needs and plans or at all. Approval of network sharing agreements would allow all MNOs to construct and operate an LTE (4G) network, but there can be no assurance that these will be approved. See also "Item 3. Key Information –D. Risk Factors – Risks Related to our Business - We may be adversely affected by significant technological and other changes in the cellular communications industry; network sharing agreements, if approved, may have material adverse effects on our business" and "Network and cell site sharing agreements" above.

Cell site construction and licensing

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

Suppliers

We entered into an agreement with LM Ericsson Israel Ltd., in September 2005 for the purchase of UMTS radio access network and ancillary products and services and in December 2011 for the purchase of upgraded UMTS /HSPA products and related services. We have an option to purchase additional maintenance services on an annual basis until 2026. Under the agreement, the parties generally have limited liability for direct damages of up to 40% of the value of the agreement.

Table of Contents

Under our agreement with Nokia-Siemens Networks Israel Ltd., or Nokia-Siemens, we purchased our GSM/GPRS system in 2001, an EDGE system in 2002, a UMTS core system in 2005 and a UMTS/HSPA radio access network and related products and services in May 2011. We have an option to purchase maintenance services until 2026. Under the agreement, the parties generally have limited liability for direct damages of up to 10% of the value of the agreement.

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

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

Transmission network

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

Our optical transmission network is deployed from Nahariya in the north to Beer Sheva in the south and Afula and Jerusalem in the east, consisting of approximately 1,700 kilometers. The fiber-optic network reaches most of the business parks in the country and is monitored by a fault-management system that performs real-time monitoring in order to enable us to provide our subscribers with high quality service. In order to efficiently complete our transmission network's coverage to substantially the entire country, we use a microwave network as a complementary solution in those areas that are not served by our fiber-optic network. As of December 31, 2013, we had deployed approximately 3,100 microwave links to both our cell sites and subscribers.

In 2013 we continued to upgrade our Carrier Ethernet network and upgraded our ISP network backbone in Israel and abroad in order to support growing demand for capacity, upgraded the capabilities and capacity of our customer Quality of Experience systems and implemented a central system for the protection of our network against cyber attacks.

Under our agreement with Alcatel Lucent Israel Ltd., or Alcatel Lucent, we purchased an SDH transmission network. We purchase maintenance services for the network on a annual basis. Under the agreement, Alcatel Lucent has generally limited liability for direct damages of up to the higher of the sum collected from its insurer less US $1,000,000 per year or US $1,000,000 per each calendar year.

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

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

Information technology

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

In July 2010, we entered into an agreement with Amdocs (Israel) Limited, or Amdocs, for the provision of operation, maintenance, management and development services for our billing and customer care system until December 2014. In December 2013, we entered an additional agreement with Amdocs for the provision of such services in relation to all our and Netvision's existing billing and customer care systems (and any replacement to such systems, if supplied by Amdocs), effective February 2014 (for systems not included in the previous agreement) and January 2015 (for systems included in the previous agreement) until February 2024. We may terminate the agreement after August 2016, subject to a termination payment (decreasing over time) until February 2020. In December 2013, we entered into an additional agreement with Amdocs for the development of a new version for our billing system, which will serve Netvision as well. Under the agreements, the parties generally have limited liability for direct damages of up to the value of the agreement for each year subject to certain additional exceptions to the limitation.

Netvision currently uses a billing system supported internally and by Intec and a customer care system provided by PeopleSoft and supported by Matrix for Oracle.

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

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

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

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

Cisco Systems, Inc., or Cisco, provides us and Netvision maintenance proactive malfunction detection and consultant services for both our IP networks equipment. The agreement is effective until the end of 2014.

Table of Contents

Sales and Marketing

Sales

As part of our strategy to fully penetrate every part of the Israeli market, we try to make the purchase of our services as easy and as accessible as possible, while making our sales lineup more cost efficient. Our efforts to adjust our sales operations to meet changing market conditions include closing and uniting points of sale and eliminating duplicate points of sale or transferring to more cost effective channels, such as reducing of door to door sales and increasing telephonic sales. We offer pricing plans, value-added services, handsets, accessories and related services through a broad network of direct and indirect sales personnel. We design pricing plans and promotional campaigns aimed at attracting new subscribers and enhancing our ability to retain our existing subscribers. We pay our independent dealers commissions on sales, while our direct, employee sales personnel receive base salaries plus performance-based incentives. All of our, and our dealers', sales and other customer-facing staff go through extensive training prior to commencing their work. Our distribution and sales efforts for subscribers are conducted primarily through four channels:

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

We operate directly, using our sales force and service personnel, at approximately 30 physical points of sale and service (having closed two points of sale and service in 2013), mostly located in shopping centers and other frequently visited locations to provide our subscribers with easy and convenient access to our products and services. In 2013, we reduced the space of several points of sale , and we may continue to do so in 2014.

We also distribute our products and services indirectly through a chain of dozens of dealers (including our own wholly owned dealer, Dynamica) who operate at approximately 120 points of sale throughout Israel. Our dealers are compensated for each sale based on qualitative and quantitative measures. We closely monitor the quality of service provided to our subscribers by our dealers. In our efforts to penetrate certain sectors of our potential subscriber base, we select dealers with proven expertise in marketing to such sectors.

Telephonic and door-to-door sales. Telephonic sales efforts target existing and potential subscribers who are interested in buying or upgrading handsets and services. Our sales representatives (both in-house and outsourced) offer our customers a variety of products and services, both in proactive and reactive interactions. The door-to-door sales team target the door-to-door subscribers based on market surveys that we regularly conduct and database analysis. In 2012 we reduced our door-to-door efforts and switched to more efficient sales channels such as the telephonic sales.

Account managers. Our direct sales force for our business customers maintains regular contact with our mid-sized and large accounts, focusing on sales of cellular and wireline services, customer retention and tailor-made solutions for the specific needs of such customers. We have restructured our service to small and mid-sized business customers so as to provide one focal point to both sales and services by phone. Sales to larger business customers or governmental and local authorities sometimes involve participation in the customer's tender process.

Table of Contents

Internet sales. We offer our customers the ability to purchase our products and services through our internet site and our smartphone application and invest efforts in directing our customers toward self-service channels.

Marketing

Our marketing strategy emphasizes our position as a market leader, our value for money to families and small businesses and our provision of a comprehensive solution for our customers' communication needs, in such plans as our "Cellcom Total" pricing plan, which combines a package of voice and SMS usage, cellular data, ISP, landline and ILD services for families, and "Cellcom Total for Businesses", which combines a package of voice and SMS usage, cellular data , extended repair services, IP switchboard, ISP, landline and ILD services for the office for small and mid-sized businesses. We believe the provision of Cellcom Total packages has strengthened loyalty and increased customer satisfaction. We aim to provide our customers with a comprehensive quality experience through the various means of communications that they use, including their mobile handset, tablet and laptop. Alongside our focus on packages for a fixed sum, we have substantially reduced the number of calling plans available to our customers, thus reducing our back office operation.

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

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

We regularly advertise in all forms of media, including in promotional campaigns. We also use "one to one" promotional campaigns such as advertisements in our subscribers' monthly bill and in incoming IVR. We believe our marketing and branding campaign has been very successful and acclaimed among the Israeli public. Most of our 2013 commercials promoting "Cellcom Total" pricing plan, focusing on the comprehensive solution proposed for different needs, were ranked as "the most liked commercial of the week" in a survey conducted weekly by Globes, a leading business newspaper in Israel. In addition, most of Netvision's 2013 commercials focusing on Netvision's customer service and customer satisfaction, were also ranked by Globes as "the most liked commercial of the week". We believe that the success and public response that the campaigns have generated is the result of the relevance of their messages to our customers, indicating the success of our focus and differentiation from our competitors.

Cellcom was ranked by Globes as the leading and strongest brand of Israel’s cellular market in 2013 for the third year in a row. We believe that our strong brand recognition gives us the high level of market exposure required to help us achieve our business objectives.

Table of Contents

Customer Care

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

In April 2013, we were determined to be the leading cellular customer service provider by the Ministry of Communications' report for 2012.

In our efforts to adjust our costs to new market conditions, we have closed or unified walk-in centers in neighboring locations and reduced or relocated call centers, operating them in a more cost effective fashion, while placing greater focus on self-service channels. In order to respond to subscribers' needs in the most efficient manner, our customer support and service network offers several channels for our subscribers:

Call centers. In order to provide quick and efficient responses to the different needs of our various subscribers, our call-center services are divided into several sub-centers: general services; technical services; billing; sales; international roaming; and data and internet. We are constantly reviewing the effectiveness of our service and in 2013, we commenced operating a multi-function call center providing technical, data-and internet and general services. If found to facilitate both effectiveness and cost efficiency, we may establish additional such call centers in the future. We further plan to evaluate the effectiveness of teams dedicated to the provision of a unified service for our and Netvision's bundled communications services. The call center services are provided in four languages: Hebrew, Arabic, English and Russian. We regularly monitor the performance of our call centers. We currently operate call centers in eight locations throughout Israel, three of which are outsourced. In 2013 we witnessed a decrease in calls to our calls centers. During peak hours our call centers have the capability to respond to 600 customer calls simultaneously. We are making efforts to reduce the number of calls to our call centers by offering simple price plans and promoting our self-service channels.

Walk-in centers. As of December 31, 2013, we independently operated approximately 30 service and sales centers, having closed two points of sale and service in 2013, with approximately 120 additional sale and service points operated by our dealers

Table of Contents

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

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

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

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

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

We entered into an agreement with Be’eri Printers for our printing supplies and invoices as well as the distribution, packaging and delivery of invoices and other mail to the postal service distribution centers in 2003. Under the terms of the agreement, we committed to purchase from Be’eri a minimum monthly quantity of production and distribution services which may be reduced if we modify our printed invoice delivery policy. The agreement was valid until December 2013and we are negotiating its renewal.

Competition

Cellular

There is intense competition in all aspects of the cellular communications market in Israel, which intensified further in 2012 and 2013, and we expect that this intensified

Table of Contents

competition will continue in the future, due to the highly penetrated state of our market and new competition, aided by regulatory changes. See "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business." We currently compete for market and revenue share with nine other cellular communications operators: four MNOs (Partner, Pelephone, Hot Mobile and Golan) and five MVNOs (Rami Levy, Home Cellular, Alon Cellular, Azi and Cellact).

Our estimated market share based on number of subscribers was approximately 30.6% as of December 31, 2013. Estimated market shares at such time of Partner, Pelephone, Hot Mobile and Golan were estimated to be approximately 29.1%, 26.3%, 8% and 4.1%, respectively and the MVNOs' collective market share was estimated to be 1.9%.

The competition in the cellular communications market intensified following the compulsory reduction of cellular Early Termination Fees to a negligible amount in February 2011 and their subsequent annulment, which eliminated the transfer barrier between operators and the formation of communications groups. In May 2012, the competition further drastically intensified following the entry of additional cellular operators to the market, specifically the launch of two new UMTS operations by Hot Mobile and Golan, without having to first invest in building their own network and using national roaming on Pelephone's and our networks aimed at winning market share in the private sector as quickly as possible (as reaching a 7% market share in the residential sector within five years would allow them to reduce their respective license fee commitments of approximately NIS 705 and 360 million, respectively, to an immaterial amount and retrieve the bank guarantees guaranteeing such commitments; by introducing significantly lower tariffs than market level at that time. Hot Mobile retrieved the bank guarantee in Novmeber 2013 and Golan requested its retrieval in January 2014. This has caused a substantial decrease of prices made by all competitors, including us. As a result, and in an attempt to increase customers acquisition rate and gain market share, Golan and Hot Mobile have offered even lower tariffs, including free of charge Unlimited Packages for a limited period. Subsequently, in the fourth quarter of 2012 and in 2013, other operators also substantially reduced prices and offered free of charge packages for a limited time, resulting in an erosion of the price level differentiation between incumbent and new competitors, and leading to a material increase in churn rate and price erosion and a material decrease in revenues and profitability for us.

Competition may intensify further as a result of the occurrence of any of the events described under "Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business." In addition, if network sharing agreements are approved and executed, they will, among other things, allow MNOs (particularly Golan and Hot Telecom) to direct the extensive savings such agreements will afford into further competition, as well as increase the competition on hosting services to MVNOs.

Handsets

In the handsets market, we compete with numerous vendors, chain stores and importers' stores. Recent regulatory decisions alleviating the regulatory requirements on the import to and sale of handsets in Israel, coupled with regulatory decisions preventing cellular operators from linking handsets sale and cellular services, led to the entry of additional competitors into the market, significantly increased competition and decreased sales for us. See "Item 4. Information on The Company - Government Regulations – Tariff Supervision" for additional details. That, coupled with the growing change in the business market where corporations no longer purchase cellular services for their employees from a designated operator but rather allow each employee to purchase his or her own device and obtain cellular services from their operator of choice, known as the "bring your own device" phenomenon, may further increase the competition in this market.

Wireline

For the formation of a wholesale landline market in Israel see "-Government Regulations – Landline" below".

While an effective wholesale wireline market will enhance our ability (including through Netvision) to compete and extend our service offering, the recommendations regarding the structural separation and Bezeq's tariffs supervision, which were liaised together by the Ministry of Communications' policy, may have a material adverse effect on our competitive capabilities and results of operation. In addition, setting low prices for landline wholesale market services may increase the competition in the landline market as it will facilitate the entrance of new competitors to the landline market and may trigger further escalation in the competition in other markets in which we operate, including the cellular market. For further details see below in this Item 4. B. under "- Netvision". See also "Item 3. Key Information – D. Risk Factors – Risks related to our wholly owned subsidiary Netvision – Changes in regulatory environment could adversely affect Netvision's business" for risks relating to our landline operations and our ability to grow in that market.

The principal competitive factors in the cellular market include general brand perception, perceived price, customer service and handset selection. In addition, mobile data and other value-added services constitute an important factor in selecting a cellular provider.

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

- acquiring Netvision to create a competitive communications group and offering comprehensive bundles of mobile and wireline solutions, such as the very successful "Cellcom Total" price plans;

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

- introducing innovative value-added services;

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

- investing in our network technology to ensure our ability to offer quality and advanced cellular and wireline services;

- entering into network and cell site sharing agreements with Pelephone and Golan, which, if approved and executed, will result in substantial operating expense and capital expenditure savings to us, while allowing us to upgrade our network to 4G technology and provide our customers with the most advanced services;

Table of Contents

- offering attractive pricing plans to subscribers, including cross-sale and up-sale of our and Netvision's services; and
- identifying new opportunities to maximize our advantages as a cellular operator and maximizing our advantages as a communications group, such as by providing television services over the internet, a solution that is in the final stages of development and that we may decide to launch, the offering of landline infrastructure services to the private sector if an effective wholesale market is established, and the offering of NFC-based cellular credit card services, which we expect to commercially offer in 2014.

Our ability to compete successfully will depend, in part, on our ability to anticipate and respond to trends and events affecting the industry, including: the introduction of new services and technologies, changes in consumer preferences, demographic trends, economic conditions, pricing strategies of competitors and changes to the legal and regulatory environment. We believe that we are well positioned for the competition in our market.

Intellectual Property

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

We have registered approximately 40 domain names and approximately 120 trademarks, the most important of which are the star design, “Cellcom”, “Talkman” and “Cellcom Volume”. Netvision has registered approximately 115 domain names and approximately 50 trademarks, the most important of which are "Netvision" and "013 Netvision". We are also the proprietor of a few registered patents.

Government Regulations

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

General

A significant part of our operations is regulated by the Israeli Communications Law, 1982, the regulations promulgated under the Communications Law and the provisions of our licenses, which were granted by the Israeli Ministry of Communications pursuant to the Communications Law. We are required by law to have a general license in order to provide cellular communications services in Israel. The Ministry of Communications has broad supervisory powers in connection with the operations of license holders and is authorized, among other things, to impose financial penalties for violations of the Communications Law, the regulations and our licenses. For a description of the principal licenses held by Netvision see below in this Item 4.B under the caption "- Netvision".

Our principal license

The establishment and operation of a cellular communications network requires a license pursuant to the Communications Law for telecommunications operations and services

Table of Contents

and pursuant to the Israeli Wireless Telegraph Ordinance (New Version), 1972, for the allocation of spectrum and installation and operation of a cellular network.

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

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

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

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

Table of Contents

certain exceptions requiring the prior approval of the Ministry of Communications;

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

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

- prior to operating a network, we are required to have agreements with a manufacturer of cellular network equipment for the duration of its intended operating period, which must include, among other things, a know-how agreement and an agreement guaranteeing the supply of spare parts for our network equipment for a period of at least seven years;

- we are required to interconnect our network to other public telecommunications networks in Israel, on equal terms and without discrimination, in order to enable subscribers of all operators to communicate with one another, and are also required to provide national roaming services to new UMTS operators;

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

- there are certain general types of payments that we may collect from our subscribers, general mechanisms for setting and raising tariffs, including the basic airtime charging units, and providing cellular services related benefits, reports that we must submit to the Ministry of Communications and an obligation to provide notice to our customers and the Ministry of Communications prior to increasing tariffs and the Ministry of Communications is authorized to intervene in setting tariffs in certain instances;

- we must maintain a minimum standard of customer service, including, among other things, establishing call centers , maintaining a certain service level of our network, collecting payments pursuant to a certain procedure, protecting the privacy of subscribers; use a specific format for our agreement with our customers; obtain an explicit request from our subscribers to purchase services, whether by us or by third parties, as a precondition to providing and charging for such services, including specific requirements as to format and a default blockage of the customer's ability to purchase certain services; maintain a specific form of evidence of customers' request to purchase our services as a precondition to charging our customers for those services; and provide certain notifications to customers regarding the services ordered and the procedures for handling subscribers' objections as to billing and repayment of overcharged sums;

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

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

In the event that we violate the terms of our license, we may be subject to substantial penalties, including monetary sanctions. In August 2012, the Communications Law was amended so as to set gradual financial sanctions on communication operators, for breach of their licenses, the sum of which shall be calculated as a percentage of the operator's income and based on the gravity of the breach. The maximum amount per violation that may be imposed is approximately NIS 1.6 million plus 0.225% of our annual revenue for the preceding year. The Ministry of Communications published criteria to be used for determining the sum of the imposed sanctions, including the impact on the competition, the duration of the violation, the number of subscribers affected, the benefit to the operator from the violation and prior violations. Following the publication of the guidelines, the MOC has substantially increased its supervision activities and imposed monetary sanctions, including on us (in immaterial sums). Substantial sanctions will harm our results of operations. In the event that we materially violate the terms of our licenses, the Ministry of Communications has the authority to revoke them.

Other licenses

Special general license for the provision of landline communications services

In April 2006, Cellcom Fixed Line Communications L.P., or Cellcom Fixed Line, a limited partnership wholly-owned by us, was granted a non-exclusive special general license for the provision of landline telephone communications services. The license expires in 2026 but may be extended by the Ministry of Communications for successive periods of 10 years. We began providing landline telephone services in July 2006, concentrating on offering landline telephone services to selected businesses. The partnership deposited a bank guarantee in the amount of NIS 10 million with the Ministry of Communications upon receiving the license. The provisions of our general license described above, including as to

Table of Contents

its extension, generally apply to this license, subject to certain modifications. It should be noted that in addition to any 10% share transfer requiring the prior approval of the Ministry of Communications as noted in our general license, the special general license additionally requires prior approval for acquiring the ability to effect a significant influence over us. In this context, holding 25% of our means of control is presumed to confer significant influence.

Data and transmission license

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

Services in Judea and Samaria

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

ISP license

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

Possible unified license

In August 2013, the Ministry of Communications published a hearing regarding the replacement of the current special general license for the provision of landline communications services, the general license for the provision of international telecommunication services and the MVNO license, with a unified license, which would allow its holder to provide any of these services as well as ISP services (currently provided under an internet service provider license) and installation and maintenance of telecommunication equipment at a customer's or the licensee's premises (currently provided under a "network end point" license). The purpose of the proposed regulation is to alleviate the requirements on license holders that are not required to have a nationwide infrastructure, in order to decrease entry barriers for additional competitors to enter those markets. This replacement would occur within a certain period of time, to the best of our understanding, in

Table of Contents

two phases: (1) replacement of each such license to a separate unified license format followed by (2) unification into one license encompassing all those services.

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

Entry of additional competitors into the markets in which we or Netvision operate, facilitated by the proposed unified license, may also increase competition in these markets.

Tariff supervision

Under the Israeli Communications Regulations (Telecommunications and Broadcasting) (Payment for Interconnecting), 2000, interconnect tariffs among landline operators, international call operators and cellular operators are subject to regulation and have been gradually decreased, leading to a material decrease in our revenues.

In September 2010, the regulations were amended to dramatically reduce maximum interconnect tariffs payable to cellular operators. Current tariffs are as follows:

- the maximum interconnect tariff payable by a landline operator or a cellular operator for the completion of a call on another Israeli cellular network is NIS 0.0643 per minute from January 1, 2013 and NIS0.0615 per minute from January 1, 2014; and

- the maximum interconnect tariff payable by a cellular operator for sending an SMS message to another Israeli cellular network is NIS 0.0015 from January 1, 2013; and NIS 0.0014from January 1, 2014.

- The tariffs do not include VAT and represent certain CPI linkage from 2009. The tariffs will be increased by the percentage of royalties payable to the Ministry of Communications by the operator (currently 0%).

The reduction in tariffs had a material adverse effect on our results of operation in the years 2011, 2012 and 2013. For details on the effects of the reduction see "Item 5. Operating and Financial Review and Prospects. – A. Operating Results – Overview –General".

In October 2013, the regulations were further amended to reduce the maximum interconnect tariffs payable to landline operators from a varying tariff of NIS 0.0232-0.0421 to NIS 0.01 as of December 2013 and NIS 0.0101 as of January 2014.

Our general license prevents us from offering our subscribers pricing plans using airtime charging units other than the basic airtime charging unit. In March 2012, the Communications Law was amended so as to prohibit cellular operators from making any linkage between a cellular services transaction and a handset purchase transaction, including by way of offering airtime rebates or refunds for handsets, as of January 1, 2013 (under our license we were required to provide such rebates or refunds to customers who purchased their handset elsewhere). This has resulted in further decreased sales of handsets by us and increased churn, both of which are expected to continue.

Table of Contents

The Communication Law has prevented the collection of Early Termination Fees in the cellular market (as of 2012) and the other communication markets(as of 2011) (excluding from customers with more than a certain amount of cellular lines or over a certain amount of monthly invoice for bundles or other services) in existing as well as new pricing plans. An additional amendment to the Law prohibits the collection of the handset's remaining installments in one payment pursuant to early termination. As a result, our current pricing plans generally do not include a commitment to a predefined period nor an Early Termination Fee (excluding price plans for customers with more than a certain amount of cellular lines or over a certain amount of monthly invoice for bundles or other services). The reduction and subsequent annulment of Early Termination Fees in the cellular market has led to the offering of packages at lower average revenue per minute and accelerated price erosion, and has materially increased churn rate and subscriber acquisition and retention costs.

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

Under the Communications Law, in the event that a MVNO and the cellular operator, will not have reached an agreement as to the provision of service by way of MVNO within six months from the date the MVNO has approached the cellular operator, and if the Ministry of Communications together with the Ministry of Finance determine that the failure to reach an agreement is due to unreasonable conditions imposed by the cellular operator, the Ministry of Communications may intervene in the terms of the agreement, including by setting the price of the service. Unfavorable terms and consideration for the service, may result in material adverse effect on our results of operations. For additional details see "Mobile Virtual Network Operators" below. In 2011 five MVNOs have entered into hosting agreements, one of which (Home Cellular) has entered into an agreement with us. To date, five MVNOs commenced operations and one of them is hosted by us.

In August 2012, the Consumer Protection Law was amended, effective January 2013, to obligate us to pay our customers predetermined damages for each discrepancy from the customer's pricing plan, remedied after the customer complained. The damages are in an insignificant amount, but may aggregate to substantial amounts if paid to numerous customers on multiple occasions.

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

Table of Contents

the provision of different services, including between services provided to a licensee and services provided to a subscriber.

In 2013, the Communications Law was amended so as to prohibit cellular operators from linking a cellular services transaction and handset purchase transaction, including by way of offering airtime rebates or refunds for the handsets. This amendment has adversely affected our end-user equipment revenues and our results of operations. In November 2013, the MOC instructed to discontinue any specific rebates and refunds to customers transferring from other cellular operators. This instruction has and is expected to continue to adversely affect our sales abilities and our results of operations.

In December 2013, our cellular license was amended so as to place restrictions on the provision of roaming services, including default blockage of the data roaming service to be opened only upon the customer's request, automatic blockage of data roaming services (excluding customers with a data plan) to be reopened again upon such request each time the customer reaches a certain usage threshold, and certain notification procedures, in effect as of March 2014. Such change is expected to have an adverse effect on our roaming revenues and results of operations.

Permits for cell site construction

General

In order to provide and improve network coverage to our subscribers, we depend on cell sites located throughout Israel. The regulation of cell site construction and operation are primarily set forth in the Israeli National Zoning Plan 36 for Communications, which was published in May 2002. The construction of radio access devices, which are cell sites of smaller dimensions, is further regulated in the Communications Law.

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

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

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

72

if so enacted, on our network and network build-out. Additionally, in July 2013, another bill passed the first stage of enactment which proposes changes to the planning and building process of cell sites which may facilitate and shorten the current procedures for obtaining the relevant permits. We cannot estimate the chances of its enactment or its effects, if so enacted.

See note 30 to our consolidated financial statements for 2013 included elsewhere in this annual report for details regarding a purported class actions filed against us in connection with cell sites construction and operation (a second purported class action was dismissed without prejudice).

National Zoning Plan 36

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

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

However, National Zoning Plan 36 is in the process of being revised. Currently proposed changes would impose additional restrictions and requirements on the construction and operation of cell sites. In June 2010, the proposed changes were approved by the National Council for Planning and Building and submitted for the approval of the Government of Israel. If the proposed changes are approved by the Israeli Government, they will harm our ability to construct new cell sites, make the process of obtaining building permits for the construction and operation of cell sites more cumbersome and costly, and could adversely affect our existing network and delay the future deployment of our network.

Site licensing

We have experienced difficulties in obtaining some of the permits and consents required for the construction of cell sites, especially from local planning and building authorities. The construction of a cell site without a building permit (or applicable exemption) constitutes a violation of the Planning and Building Law. Violations of the Planning and Building Law are criminal in nature. The Planning and Building Law contains enforcement provisions to ensure the removal of unlawful sites. There have been instances in which we received demolition orders or in which we and certain of our directors, officers and employees faced criminal charges in connection with cell sites constructed and/or used

Table of Contents

without the relevant permits or not in accordance with the permits. In most of these cases, we were successful in preventing or delaying the demolition of these sites, through arrangements with the local municipalities or planning and building authorities for obtaining the permit, or in other cases, by relocating to alternate sites. As of December 31, 2013, we were subject to eight criminal and administrative legal proceedings alleging that some of our cell sites were built and have been used without the relevant permits or not in accordance with the permits. As of the same date, a small portion of our cell sites operated without building permits or applicable exemptions. Although we are in the process of seeking to obtain building permits of these sites, we may not be able to obtain them and in several instances we may be required to relocate these sites to alternative locations or to demolish them without any suitable alternative. In addition, we may be operating a significant number of our cell sites, in a manner which is not fully compatible with the building permits issued for them, although they are covered by permits from the Ministry of Environmental Protection in respect of their radiation level. In some cases we will be required to relocate these cell sites to alternative locations, to reduce capacity coverage or to demolish them without any suitable alternative.

Based on advice received from our legal advisors and consistent with most Court rulings on the matter and the Israeli Attorney General opinion on the matter (given in May 2008) that the exemption from obtaining a building permit applies to cellular radio access devices, we have not requested building permits under the Planning and Building Law for rooftop radio access devices.

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

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

Table of Contents

respect to radiation safety, cell sites constructed pursuant to a building permit are preferable to radio access devices, and utilizing a cellular network to provide advanced services which can be provided through a landline network, is unjustified in light of the preventive care principle set in the Israeli Non-Ionizing Radiation Law.

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

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

Additionally, in November 2008, the District Court of Central Region, in its capacity as court of appeals, ruled that the exemption does not apply to radio access devices, if the rooftop on which those devices are located is at the same level as a place of residence or other building that is regularly frequented by people. Other appeals relating to the exemption, including as to the requirement to obtain an extraordinary usage permit, are still under consideration, as well as other claims asserting that those cell sites and other facilities do not meet other legal requirements continue.

An annulment of, or inability to rely on, or substantial limitation of, the exemption could adversely affect our existing network and network build-out, particularly given the rapidly growing demand for data traffic on our network (including as a result of our 2G and 3G sharing agreement, if approved), specifically in urban areas and the objection of some local planning and building authorities to grant due permits where required, could have a negative impact on our ability to obtain environmental permits for these sites, could negatively affect the extent, quality, capacity and coverage of our network, and our ability to continue to market our products and services effectively and may have a material adverse effect on our results of operations and financial condition.

Table of Contents

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

For reasons not related to radiation hazards, due to building and planning issues we have received partial environmental permits for single cell sites.

Several local planning and building authorities argue that Israeli cellular operators may not receive building permits in reliance on the current National Zoning Plan 36, or the Plan, for cell sites operating in frequencies not specifically detailed in the frequencies charts attached to the Plan. In a number of cases, these authorities have refused to issue a building permit for such new cell sites, arguing that the Plan does not apply to such cell sites and that building permits for such cell sites should be sought through other processes (which are longer and cumbersome), such as an application for an extraordinary usage or under existing local specific zoning plans. Since June 2002, following the approval of the Plan, building permits for the Company's cell sites (where required) have been issued in reliance on the Plan. The current proposed draft amendment to the Plan covers all new cell sites requiring a building permit, independently of the frequencies in which they operate. Most of our cell sites and many cell sites operated by other operators, also operate in frequencies not specifically detailed in the Plan. The frequencies allocated in the 2011 UMTS tender to Hot Mobile and Golan are also not detailed in the Plan. We believe that the Plan applies to all cell sites, whether or not they operate in specific frequencies, consistent with the practice developed since 2002.

If this approach continues, it would have a negative impact on our ability to deploy additional cell sites (until such time as the Plan is amended to include all cellular cell sites), which could negatively affect the extent, quality and capacity of our network coverage and our ability to continue to market our products and services effectively.

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

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

Table of Contents

necessary for the installation of these sites, it could have a negative impact on our ability to obtain environmental permits for these sites and to deploy additional microwave sites and could hinder the extent, quality and capacity of our transmission network coverage and our ability to continue to market our landline services effectively.

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

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

In May 2012, the positions of the Ministries of Communications, Health and Environmental Protection in relation to the various aspects of the provision of 4G services in Israel were published, in response to a petition to hold a public debate regarding 4G service in Israel and prevent 4G spectrum allocation until such debate is held. The Ministries held the position that 4G services would involve some increase in the level of non-ionizing radiation the public will be exposed to and that in order to minimize such increase 4G deployment should be based on current cell sites, additional outdoor and indoor small cell sites and, whenever possible, use wireline infrastructure so that data traffic shall be carried mostly through wirelines and not cellular infrastructure. The adoption of the inter-ministry team's recommendations regarding cell site sharing is a precondition for the deployment of 4G infrastructure. Under such guidelines, the public's exposure to non-ionizing radiation level should not increase substantially. The Ministry of Health further opined that in light of the preventive precaution principle and, in order to reduce as much as possible the alleged health risks, 4G fields of usage and specific usage should be predefined and additional usage, where a landline alternative is available, should be conditioned on further discussion. The Ministry of Environmental Protection stated that full deployment of 4G infrastructure, under the guidelines set by the ministries shall decrease the level of exposure from handsets and create a more balanced level of exposure from cell sites, lower than current level in some areas where cellular infrastructure is sufficient and somewhat higher in areas where cellular infrastructure is sufficient and in any case much lower than the maximum exposure levels recommended by the international health organization and required under the environmental permits for cell sites in Israel. See "Construction and operating permits from the commissioner of environmental radiation" below for additional details. For details regarding network and cell sites sharing agreements see "– A. History And Development Of The Company- Our History - Strategic network sharing agreements in 2013" and "- B. Business Overview – Network and Technology - Network and Cell Sites Sharing Agreements" above.

Indemnification obligations

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

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

Since January 2006, we have provided approximately 368 indemnification letters in order to receive building permits. In addition, prior to January 2006, we provided three undertakings to provide an indemnification letter to local planning and building committees. Local planning and building committees have sought to join cellular operators, including us, as defendants in depreciation claims made against them even though indemnification letters were not provided. We were joined as defendants in a small number of cases, but were not, as of December 31, 2013, a party to any such depreciation claim. We expect that we will be required to continue to provide indemnification letters as the process of deploying our cell sites continues. As a result of the requirement to provide indemnification letters, we may decide to construct new cell sites in alternative, less suitable locations, to reduce capacity coverage or not to construct them at all, should we determine that the risks associated with providing such indemnification letters outweigh the benefits derived from constructing such cell sites, which could impair the quality of our service in the affected areas.

Construction and operating permits from the commissioner of environmental radiation

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

These permits contain various conditions that regulate the construction and/or operating of cell sites, as the case may be. Our cell sites routinely receive both construction and operating permits from the Commissioner within the applicable time frames. Some repeaters require specific permits and others require general permits from the Commissioner in respect of their radiation level, and we ensure that each repeater functions within the parameters of its applicable general permit.

Pursuant to the Non-Ionizing Radiation Law, the construction and operation of cell sites and other facilities requires the prior approval of the Ministry of Environmental Protection. The validity of a construction permit will be for a period not exceeding three months, unless otherwise extended by the Commissioner, and the validity of an operating permit will be for a period of five years and we are required to submit to the Commissioner annual reports regarding radiation surveys conducted on our cell sites and other facilities by third parties that were authorized to conduct such surveys by the Commissioner. Permits that were issued under the Pharmacists Regulations were deemed, for the remainder of their term, as permits issued under the Non-Ionizing Radiation Law. An applicant must first receive a construction permit from the Commissioner and only then may the applicant receive a building permit from the planning and building committee. In order to receive an operating permit from the Commissioner, certain conditions must be met, such as presenting a building permit or an exemption and means taken (including technological means) to limit exposure levels from each cell site or facility (relevant also for the receipt of a construction permit). In April 2010, the Commissioner amended all existing operating permits to include an obligation to provide the Commissioner with online, ongoing data regarding the radiation level on each of the cell sites and other facilities operated by each cellular operator, satisfied by a monitoring system supplied by the Commissioner and installed at the operator's premises. We provide the Commissioner with the requested data. See "Site licensing" above for additional details in regards to obtaining a building permit or relying on an exemption.

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

In December 2008, the Minister of Environmental Protection signed the Non-Ionizing Radiation Regulations, which did not include a section setting additional restrictions in relation to the operation of cell sites and other facilities, which was included in a previous draft of the regulations. This section is pending approval by the Internal Affairs Committee of the Israeli Parliament. Further, in February 2010, the Minister of Environmental Protection published a proposed amendment to the Non-Ionizing Radiation Law, aiming to cancel the requirement to obtain the Minister of Communications' approval to the Non-Ionizing Radiation Regulations, where such regulations may have a substantial and direct effect on the monetary burden imposed on the communications market, as is required under the current law.

In March 2013, a bill amending the Non-Ionizing Radiation Law so as to prohibit the grant of permits under such law for the construction and operation of cell sites situated within 75 meters from certain institutions, passed a preliminary phase of enactment in the Israeli

Table of Contents

Parliament. According to the bill, such permits granted prior to the enactment of the bill shall expire within 6 months from its effective date. In March 2013, another bill amending the Planning and Building Law was published, so as to broaden the public's right to submit objections to all requests for the construction of cell sites and to allow a wider discretion to the planning authorities in relation to such requests that are submitted in certain circumstances including similar to those described in the previous bill. If restrictions similar to those included in the previous draft of the Non-Ionizing Radiation Regulations (which included additional restrictions on the operation of cell sites and other facilities) or the proposed change to the Non Ionizing Radiation Law or the Planning and Building Law are subsequently adopted, they will, among other things, limit our ability to construct new sites (and if applied to existing cell sites, they will also limit our ability to renew operating permits for many of our existing sites), will adversely affect our existing networks and networks build out, specifically in urban areas, and could adversely affect our results of operations.

See note 30 to our consolidated financial statements for 2013 included elsewhere in this annual report for details regarding purported class actions filed against us, in respect of non-ionizing radiation.

Handsets

The Israeli Consumer Protection Regulations (Information Regarding Non-Ionizing Radiation from Cellular Telephones), 2002, regulate the maximum permitted level of non-ionizing radiation from handset that emit non-ionizing radiation, according to the European standard, for testing GSM devices, and the American standard, for testing TDMA and CDMA devices. They also require cellular operators to attach an information leaflet to each handset package that includes explanations regarding non-ionizing radiation, the maximum permitted level of non-ionizing radiation and the level of radiation of that specific model of equipment. The Radiation Regulations further require that such information also be displayed at points-of-sale, service centers and on the Internet sites of cellular operators.

We obtained type-approval from the Ministry of Communications for each handset model we started to import prior to November 2012. As of November 2012, we inform the MOC of new models that we start to import and receive the MOC's approval. SAR levels are a measurement of non-ionizing radiation that is emitted by a hand-held cellular handset at its specific rate of absorption by living tissue. SAR tests are performed by the manufacturers on prototypes of each model of handset, not for each and every item. We include the information published by the manufacturer regarding SAR levels as we do not perform independent SAR tests for equipment and rely for this purpose on information provided by the manufacturers. As the manufacturers' approvals refer to a prototype handset, we have no information as to the actual SAR level of each specific item and throughout its lifecycle, including in the case of equipment repair. We inform our customers that there may be changes in the SAR levels in the event of equipment repair. See note 30 to our consolidated financial statements for 2013 included elsewhere in this annual report for details regarding purported class actions filed against us, in respect of handsets and accessories.

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

Table of Contents

Royalties

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

Frequency fees

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

Mobile virtual network operators

A mobile virtual network operator, or MVNO, is a cellular operator that does not own its own spectrum and usually does not have its own radio network infrastructure. Instead, MVNOs have business arrangements with existing cellular operators to use their infrastructure and network for the MVNO’s own customers. The operation of MVNOs in the Israeli cellular market has contributed to the increased competition. If our service to a MVNO is to be provided under unfavorable terms and consideration for us, it may adversely affect our revenues.

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

To date the Ministry of Communications has granted eleven MVNO licenses and seven MVNOs have entered hosting agreements with cellular operators, without the Ministry of Communications's intervention: Free Telecom with Pelephone, Rami Levy with Pelephone, Ituran with Pelephone and Partner, Home Cellular with us, Alon Cellular with Partner (and announced it will be transferring to Pelephone , Azi with Partner and Cellact with Pelephone. Rami Levy, Home Cellular Alon Cellular Ltd., Azi and Cellact commenced operations in December2011, April and May 2012, July 2013, and December 2013 respectively, and it is unknown if and when the others will commence operations. For additional details see "Item 4. B. – Business Overview – The Telecommunications Industry in Israel – Cellular services".

Table of Contents

Additional UMTS operators

Hot Mobile (in September 2011) and Golan (In January 2012) were awarded new UMTS frequencies, following a spectrum tender held by the Ministry of Communications. Golan was awarded a general license for the provision of cellular services and Hot Mobile's existing license was amended. Hot Mobile and Golan committed to pay license fees in the amount of approximately NIS 705 million and NIS 360 million, respectively, beginning five years from the grant date of the UMTS license, which may be reduced by one seventh of the sum, down to a minimal license fee of NIS 10 million, for each one percent of market share gained by each in the private sector (taking into consideration subscribers, revenues and minutes of use market shares) during such five year period. To date, both operators have reached 7% market share. Hot Mobile has retrieved and Golan Telecom has requested the retrieval of the bank guarantee which guaranteed their obligation to pay the license fee. Hot Mobile and Golan were awarded certain additional benefits and leniencies, such as a prolonged timetable for network coverage completion and the right to use national roaming through cellular operators' networks.

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

In October 2011, we entered a national roaming agreement with Golan, under which we will provide Golan national roaming services and cell site sharing privileges, and Hot Mobile entered a national roaming agreement with Pelephone. As a result, the Ministry of Communications did not determine the terms for the service.

In May 2012, Golan and Hot Mobile launched their UMTS services, which significantly increased competition in the market, increased churn and accelerated price erosion, and have materially adversely affected our results of operations.

Landline

In May 2012, the Israeli Minister of Communications published a policy document regarding wireline wholesale services, which mainly provides for: (1) the creation of an effective wholesale telecommunications access market in Israel, as Bezeq and Hot will allow other operators that do not own an infrastructure, to use their infrastructure in order to provide services to end users; (2) the annulment of the structural separation between an owner of wireline infrastructure and its international landline operator and internet service provider affiliates and replacement thereof with an accounting separation within nine months from the date of execution of an agreement between the owner and another operator with a significant market share, unless the Minister of Communications finds that such annulment may considerably harm competition or the public. The Minister of Communications shall consider providing leniencies in relation to or annulment of the structural separation between an owner of wireline infrastructure and its cellular operator affiliate according to the pace of development of a wholesale market and the state of competition in the market. In case an effective wholesale market does not develop within twenty four months from the date of the policy document, the Ministry of Communications shall act to impose a structural separation in the owners of the wireline infrastructure between the infrastructure and the services provided through this infrastructure; (3) the annulment by the Minister of Communications of the structural separation in relation to television broadcasting services if there is a reasonable possibility of providing a basic package of television services through the internet by providers without a national landline infrastructure. The Minister of Communications shall consider imposing a requirement to provide television broadcasting services for the same price within a package of telecommunications services and separately; (4) a change of the supervision on Bezeq retail tariffs to maximum tariffs rather than the current setting of fixed tariffs within six months from the date of execution of an agreement between Bezeq and another operator, and (5) The wholesale market's tariffs and terms of agreement shall be agreed through negotiations between the owners of the wireline infrastructure (Bezeq and Hot) and the other operators and once agreed will be offered on the same terms, to all other operators, including the owner's affiliates.

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

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

In August 2013, IBC received licenses for the provision of broadband infrastructure services on the IEC's optic fibers infrastructure to other licenses holders as well as directly to large business customers. IBC is expected to commence provision of such services in 2014.

See also "- Competition – Wireline" above.

Emergency situations

We may be subject to certain restrictions and instructions regarding our activities or provision of services during national emergencies or for reasons of national security or public welfare, including taking control of our cellular or landline networks. Further, the Prime Minister and the Ministry of Communications may determine that our services are deemed essential services, in which case we may be subject to further additional limitations on our business operations.

Reporting requirements

We are subject to extensive reporting requirements. We are required to report to the Ministry of Communications the transfer of means of control from certain thresholds and changes of office holders, as well as to provide reports relating to our ongoing operation and

Table of Contents

services. We are required to submit to the Ministry of Communications detailed annual reports with information concerning subscribers, revenues by service, the number of new subscribers and churn, annual financial statements and prior notice of tariff increases. In addition, under our license we may be required by the Ministry of Communications to file additional reports, such as reports on complaints, pricing, specific costs and revenues, network problems and the development of the network. We are required to provide the Commissioner of Environmental Radiation under the Non-Ionizing Radiation Law and regulations with periodic and online, ongoing data of all cell sites operated by us.

Securities administrative enforcement

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

Contributing to the Community and Protecting the Environment

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

In 2013 we continued to contribute to the community with a specific focus on our "Cellcom Volume" youth centers initiative. In addition to promoting Israeli music and artists and providing our customers with Israeli music through a variety of musical content, we have contributed to the creation of "Cellcom Volume" youth centers in various locations throughout Israel, in which we provide young people resources related to music, including music classes, facilities to bands and choirs for rehearsals and recording studios. We believe music is a language that connects and bonds different people together. As of December 31, 2013, we had 11 "Volume Centers" and five “mini Volume Centers” active throughout the country.

Throughout the year, our employees volunteer in various activities in the community.

In addition to our contribution to the building up and strengthening of the community, through activities such as our "Cellcom Volume" youth centers, we make financial donations to other worthy causes and entities. In 2013 we donated a total sum of approximately NIS 3.3 million, including our contribution to the community.

Table of Contents

We are aware of the importance of environmental protection. Accordingly, while providing quality products and services to our subscribers, we seek to operate responsibly to continuously reduce negative impacts on the environment and the landscape, aiming at a better environmental performance than required by local law. We dedicate personnel, funds and technologies to improve our performance, strive to achieve an efficient deployment of infrastructure subject to the applicable standards, and cooperate with the local authorities. We constantly monitor our environmental performance and aim to reduce our ecological footprint, through activities such as recycling, reduction of paper usage by managed printing, reduction of pollutants' emissions and energy usage as well as activities aimed at allowing our subscribers to better protect the environment, such as collecting used batteries, sending subscribers their monthly bill for our services and other correspondence from us via e-mail in lieu of regular mail, transfer to usage of environment friendly raw materials and separation between different types of waste in our repair services. In 2010, we entered into an agreement for the future purchase of electricity to be produced by a private natural gas based power station.

Netvision

General

On August 31, 2011, we completed the acquisition of 100% of the share capital of Netvision through a merger transaction. Netvision was founded as an Israeli company in 1994 and became a public company following its initial public offering on the TASE in 2005. In our description of Netvision's business, the term "Netvision" refers to Netvision and its subsidiaries.

Netvision is a leading company in the Israeli communications market and is engaged in two primary businesses through its wholly-owned subsidiary 013 Netvision Ltd., or 013 Netvision: provision of internet connectivity and related services (ISP); and provision of telephony services consisting mainly of international calling services, operator services, teleconferencing services and landline telephony services. In addition, Netvision is engaged in additional activities such as internet applications, cloud services and data security products.

ISP Business

General

The provision of internet connectivity services is one of Netvision's primary businesses. Netvision is a leading provider of internet connectivity services. The Israeli internet market is characterized by a separation between the internet infrastructure providers and the internet connectivity service providers. Consequently, the internet customer is required to enter into a contractual arrangement with both of these providers. The infrastructure provider is responsible for the connection of the customer from his computer or other device to the infrastructure provider's operator. The internet service provider (such as Netvision) is responsible for providing access to the customer from the infrastructure provider's operator, through its own operator, to the local and global internet network. Currently, there are two main internet infrastructure providers having landline infrastructure for the private sector in Israel: Bezeq and Hot. Netvision's internet infrastructure is currently comprised of connectivity sites in two locations in Israel (Haifa and Petah-Tikvah), which provide Netvision's customers, through overseas connectivity points in New York City, London and Frankfurt, with connectivity to the global internet network. This internet infrastructure contains backup capability in order to ensure continuity of service.

Services and Products

Netvision's main service provided to its internet subscribers is internet connectivity service and related services and products, as well as bundles of its services, including bundling with other companies' products or services. In 2013, Netvision offered ISP services bundled with cellular services offered by Cellcom.

In addition, Netvision offers its internet subscribers value added services, such as data protection services to its private subscribers and connectivity integration solutions and global communications solutions to its business customers, including firewalls, anti-virus and anti-spam software, overseas internet connectivity services and server hosting services. In addition, Netvision provides ISP services that offer the ability to filter the content viewed by the internet user; this service is targeted mainly to the orthodox religious sectors in Israel.

Netvision is constantly considering and evaluating the possibility of introducing additional products and services to its customers.

The Israeli ISP market is characterized by rapid technological changes, both in terms of the bandwidth offered to customers, as well as in terms of expansion of the list of products and services offered. For developments in the Israeli internet infrastructure sector such as the entrance of additional players into this sector, see " - The Telecommunications Industry in Israel – Wireline Services - Broadband and Internet Services" above and under " - Competition" below.

Suppliers

In the course of engaging in its ISP business, Netvision has entered into agreements with various suppliers, the principals of which are the following:

Netvision has entered into a number of agreements with Mediterranean Nautilus Ltd. and Mediterranean Nautilus (Israel) Ltd., or collectively Med Nautilus, between 2003 and 2013. Med Nautilus is the owner of communications infrastructure which connects the Israeli internet network to the "entry points" of the global internet network via an underwater communications cable (out of three existing cables, one of them is owned by one of Netvision's competitor, Bezeq International). Pursuant to its agreements with Med Nautilus, Netvision purchased rights of use, of certain telecommunications capacities on Med Nautilus' communications cables, as well as maintenance and operation services relating to these cables. Over the last few years Netvision has increased the capacity purchased for significantly lower prices. The terms of these agreements may be subject to regulatory intervention. See under "Item 3. Key Information – D. Risk Factors – Risk Factors Related to our Wholly Owned Subsidiary Netvision - Netvision is exposed to risks relating to network infrastructure and is dependent on services it receives from its external suppliers" and "-Competition" below for additional details. The 2013 agreement includes an option pursuant to which Netvision may expand the purchased capacity. The term of the agreement with respect to capacity purchased from Med Nautilus is in effect until May 2032. Netvision has the option to terminate agreements with respect to parts of the capacity in 2022 and 2027.

Netvision has also entered into agreements with Bezeq and Hot, the primary internet infrastructure providers in the Israeli market. Netvision is dependent upon these suppliers since without their infrastructure Netvision would be unable to provide its ISP services to its customers. Due to the increase in customer demand for broadband width in recent years, Netvision is required from time to time to increase the capacity it purchases from Bezeq and Hot. Under its agreement with Bezeq (valid until 2014), Netvision is required to purchase minimum bandwidth capacities from Bezeq. In June 2012, following our application to the

Table of Contents

Ministry of Communications to intervene with respect to these prices, the Ministry has published a hearing in relation to these connectivity services, and in 2013, both Bezeq and Hot reduced the price they demand for connectivity services to their infrastructure.

In 2011, Netvision entered into an agreement with Cisco effective until the end of 2014. Cisco provides Netvision maintenance and proactive malfunction detection and consultant services for its IP network equipment; in addition, Netvision sells various Cisco products to its customers.

Netvision uses several supporting systems for the provision of service to its customers, including communications infrastructure by Nortel (see additional details under "Telephony Business – Suppliers" below), customer relations management system by PeopleSoft supported by Matrix for Oracle, inventory and suppliers management system by Priority/Eshbel, billing system by CBP supported internally and by Intec, financial system by Coda and infrastructure integrations system by Microsoft BizTalk. In July 2013, we have transferred Netvision's inventory and suppliers management operation to our ERP solutions provided by SAP. We are in the process of developing a new version for our billing system, so as to include Netvision's billing operation, and in 2014 we intend to replace both our and Netvision's CRM system with one system that shall serve both companies. For details see "Item 4. Information on The Company –B. Business Overview – Network and Technology - Information technology".

Sales and Marketing and Customer Care

Netvision conducts its sales and marketing activities in the ISP business through various channels, including media advertising in newspapers, internet and television, concentrated sales campaigns, telemarketing to potential customers, as well as targeting existing customers by offering them upgrades to existing subscription programs and value added products and services. In addition, Netvision regularly collaborates with other telecommunications providers (including Bezeq and Hot) in order to offer service packages to existing and potential customers and its services are also marketed by Cellcom, including in bundles of services.

Netvision's sales and customer care center is located in Haifa, providing sales services, technical and support services, billing and general information, by specializing representatives as well as installation services provided by technicians teams at the landline customers' premises. In addition, Netvision provides its subscribers and potential subscribers with various self-service channels, such as IVR, web-based services, automatic and live chat and mobile phone application where they can receive general and specific information.

Competition

The Israeli ISP market is highly competitive and saturated and is characterized by relatively low entry barriers. Competition among the various players concentrates mainly on the ability to offer high-speeds of internet connection and on pricing. Although the provision of ISP services requires obtaining a license from the Ministry of Communications, the Ministry's policy is liberal in granting ISP licenses. As a result, as of the date of this report, there are a few dozen holders of ISP licenses in Israel, though most of them do not hold significant market shares. Entry into the ISP market requires, however, incurring substantial penetration costs associated with the formation of ISP infrastructure, support systems, customer care systems and marketing channels. Due to such penetration and the other ongoing costs of operating ISP service, profitability in the ISP market usually requires creation of a broad customer base and the ability to sell added value products to the customers.

The key success factors in the ISP market are brand recognition and reputation, advanced and updated technological capabilities, available bandwidth, high levels of customer care service, the ability to constantly develop innovative products and services and complementary products and services, competitive pricing, achieving and maintaining customer loyalty.

Netvision's main competitors in the ISP market are Smile Telecom (a wholly-owned subsidiary of Partner), Bezeq International (a wholly–owned subsidiary of Bezeq) and Hotnet (it’s a wholly owned subsidiary of Hot).

Although both Bezeq and Hot are under structural limitations, they are allowed to offer bundles of services, under certain limitations, including that each of the services in the Bezeq bundle would be available for sale separately under the same terms as in the bundle, and the requirement that Bezeq allows its competitors to participate in a similar bundle (if it includes ISP, VOB or ILD services) under the same terms and equally markets such bundles as its own bundle (though the second requirement does not apply to the sale of the bundle by a subsidiary of Bezeq). The same limitations apply to Hot in the case of bundles that include ISP services, with respect to the ISP service component of the bundle. The offering of bundles of ISP services, internet infrastructure services and landline telephony services by Bezeq as of 2010, the annulment of Early Termination Fees during 2011, the entry of Hot into the ISP market at tariffs significantly lower than market prices in 2012, the subsequent entry of cellular operators into that market in 2013 and the aggressive campaigns of both Bezeq and Hot offering substantially higher bandwidth for lower tariffs to end-users, resulted in substantial decrease in ISP service prices and led to increased demand for greater bandwidth, which required Netvision to increase the capacity it purchases from Bezeq and Hot. If future prices of internet connectivity service remain at current levels and the regulatory environment remains unchanged, this trend is expected to continue to have a material adverse effect on Netvision's results of operations. See also “Item 3. Key Information – D. Risk Factors - Risks Related to our wholly-owned subsidiary Netvision - Changes in the regulatory environment could adversely affect Netvision's business”.

In 2011 and 2012, two additional underwater cables that serve as an alternative to Med Nautilus were deployed. In addition, proposed regulation published for public comments by the Ministry of Communications in 2011, proposed certain limitations on the terms of agreements with Med Nautilus, which would, among other things, limit the discounts and capacity Med Nautilus may provide. The deployment of additional underwater cables improved the competition in the ISP market, as ISP providers were able to find alternatives to Med Nautilus, which led to a substantial decrease in the pricing of the global internet connectivity services provided to Israeli ISP providers. In addition, should we enter an agreement for the purchase of broadband infrastructure services with IBC, when it commences operations , this would improve Netvision's competitiveness in the ISP and landline markets as this is likely to reduce its dependency on Bezeq and Hot as internet infrastructure providers, but may also increase competition, given that IBC's license allows it to offer ISP services to large business corporations and that IBC plans to create a portal for all ISPs using its infrastructure. For additional details see “Item 3. Key Information – D. Risk Factors - Risks Related to our Wholly-Owned Subsidiary Netvision - Changes in the regulatory environment could adversely affect Netvision's business” and under "- The

Table of Contents

Telecommunications Industry in Israel – Wireline Services - Broadband and Internet Services" and "– Competition" above.

Regulation and Licenses

A major part of Netvision's ISP operations is subject to regulation by the Israeli Ministry of Communications pursuant to the Communications Law, including through its ISP license.

The provision of ISP and related services requires a license. Netvision was granted three ISP licenses, one to its wholly-owned subsidiary 013 Netvision, one to its controlled subsidiary Internet Rimon, and third was granted to 013 Netvision by the Israeli Civil Administration in Judea and Samaria in respect of this territory. The licenses are valid through April 2017, November 2017 and July 2016, respectively.

Under its ISP licenses, Netvision is required to maintain a minimum standard of customer service and is prohibited from conditioning the use of its services by the customer on the customers being connected to a portal designated by it. Netvision is also required to inform its customers regarding the main features of the service provided, including commencement date of service, the consideration paid by the customer, the mini