

Cellcom Israel Ltd.
Form F-1
January 17, 2007

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As filed with the Securities and Exchange Commission on January 17, 2007
Registration No. 333-

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

CELLCOM ISRAEL LTD.

(Exact Name of Registrant as Specified in Its Charter)

Israel <i>(State or Other Jurisdiction of Incorporation or Organization)</i>	4812 <i>(Primary Standard Industrial Classification Code Number)</i>	[not applicable] <i>(I.R.S. Employer Identification Number)</i>
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**10 Hagavish Street
Netanya, Israel 42140
(972) 52-999-0052**

*(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive
Offices)*

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Ordinary Shares, par value NIS 0.01 per share	21,821,250	\$18.00	\$392,782,500	\$42,028

(1) Includes 2,846,250 shares which the underwriters have the right to purchase to cover over-allotments.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION. DATED JANUARY 17, 2007.

**18,975,000 Ordinary Shares
Cellcom Israel Ltd.
Ordinary Shares**

This is an initial public offering of ordinary shares of Cellcom Israel Ltd.

The selling shareholders identified in this prospectus are offering 18,975,000 ordinary shares to be sold in the offering. We will not receive any of the proceeds from the offering.

Prior to this offering, there has been no public market for the ordinary shares. It is currently estimated that the initial public offering price per share will be between \$16.00 and \$18.00. We have been authorized to list our ordinary shares on the New York Stock Exchange under the symbol CEL.

See Risk Factors on page 10 to read about factors you should consider before buying the ordinary shares.

Neither the Securities and Exchange Commission nor any other regulatory body, including any state securities regulators, has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to the selling shareholders	\$	\$

To the extent that the underwriters sell more than 18,975,000 ordinary shares, the underwriters have the option to purchase up to an additional 2,846,250 ordinary shares from the selling shareholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on _____, 2007.

Bookrunners		
Goldman, Sachs & Co.	Citigroup	Deutsche Bank Securities
Joint-Lead Manager		
Merrill Lynch & Co.		
Co-Managers		
Jefferies & Company		William Blair & Company

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

You should rely only on the information contained in this prospectus and in any free writing prospectus which we file with the Securities and Exchange Commission. We have not authorized anyone to provide you with information

different from that contained in this prospectus or such free writing prospectus. The selling shareholders are offering to sell, and seeking offers to buy, ordinary shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the ordinary shares.

Until , 2007, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PRESENTATION OF FINANCIAL INFORMATION

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in Israel, or Israeli GAAP, and, unless otherwise indicated, all financial data and discussions related to such data are based upon financial statements prepared in accordance with Israeli GAAP. The principal differences between the accounting principles applied by us under Israeli GAAP and generally accepted accounting principles in the United States, or U.S. GAAP, are discussed in note 28 to our consolidated annual financial statements included elsewhere in this prospectus.

Unless we indicate otherwise, U.S. dollar translations of the NIS amounts presented in this prospectus are translated using the rate of NIS 4.302 to \$1.00, the representative rate of exchange as of September 30, 2006 as published by the Bank of Israel.

TRADEMARKS

We have proprietary rights to trademarks used in this prospectus 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 prospectus belongs to its respective holder.

INDUSTRY AND MARKET DATA

This prospectus 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 Organization for Economic Cooperation and Development, or OECD, and Pyramid Research.

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 prospectus that were taken or derived from these industry publications.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before deciding to invest in our ordinary shares. You should read this entire prospectus carefully, including the Risk Factors section and the consolidated financial statements and the notes to those statements.

CELLCOM

General

We are the leading provider of cellular communications services in Israel in terms of number of subscribers, revenues and EBITDA for the nine months ended September 30, 2006. Upon launch of our services in 1994, we offered significantly lower prices for cellular communications services than the incumbent provider and transformed the nature of cellular telephone usage in Israel, turning it into a mass market consumption item. We surpassed the incumbent cellular operator and became the market leader in terms of number of subscribers in 1998 and, despite the entry of two additional competitors, we have continued since then to have the highest number of subscribers. As of September 30, 2006, we provided services to approximately 2.83 million subscribers in Israel with an estimated market share of 34.4%. Our closest competitors had market shares of 31.9% and 28.7%, respectively. In the nine-month period ended September 30, 2006, we generated revenues of NIS 4.2 billion (\$974 million), EBITDA of NIS 1.4 billion (\$322 million), and operating income of NIS 762 million (\$177 million). See note 3 to the Summary Consolidated Financial and Other Data for a definition of EBITDA. We incurred significant debt in late 2005 and early 2006, which has resulted in increased financial expenses for us. Our long-term debt at September 30, 2006 was approximately NIS 3.3 billion (\$767 million).

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 landline transmission and data services to business customers and telecommunications operators and, since July 2006, we offer landline telephony services to selected businesses.

Our History

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

Our principal founding shareholders were Discount Investment Corporation Ltd., or DIC, a subsidiary of IDB Holding Corporation Ltd., or IDB, which prior to September 2005 indirectly held approximately 25% of our share capital, and BellSouth Corporation and the Safra brothers of Brazil, which together indirectly held approximately 69.5% of our share capital and voting rights in respect of an additional 5.5% of our share capital. IDB acquired the stakes of BellSouth and the Safra brothers in September 2005 and, following the sale of minority stakes to four groups of investors in 2006, IDB currently indirectly holds 78.5% of our share capital and voting rights in respect of an additional 5.5% of our share capital.

Following the acquisition by IDB in 2005, IDB put in place a new management team, including Ami Erel, the Chairman of our Board of Directors, who had previously been President and CEO of Bezeq The Israeli Telecommunications Corporation Ltd., or Bezeq, the incumbent landline provider, Amos Shapira, our Chief Executive Officer, who had been CEO of Kimberly-Clark's Israeli subsidiary and El Al Airlines, and Tal Raz, our Chief Financial Officer, one of the founders and formerly a director of Partner Communications Ltd., or Partner, one of our principal

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competitors. Our new management team has already implemented a series of initiatives to drive revenues. In addition, between September 2005 and September 2006, while increasing the number of positions in units that deal directly with our customers (such as sales and service), which we call customer-facing positions, our new management reduced our overall workforce by over 2%, primarily through the elimination of over 16% of positions in units that do not deal directly with our customers, which we call non-customer facing positions. Contracts with our main suppliers were also renegotiated to reduce costs. Our management structure has also been rationalized by providing customer-facing executives with a direct reporting line to our CEO and through the merging of technology sub-units. Following the implementation of these initiatives, our revenues and operating income increased by approximately 9% and 24%, respectively, and our general and administrative expenses decreased by 5% in the first nine months of 2006 compared to the first nine months of 2005.

Our new management also faces a number of challenges. We operate in a highly regulated and competitive industry. Compliance with the provisions of our licenses and applicable laws and regulations governing our operation, as well as our need to comply with possible future changes to our license and applicable legislation, limits our freedom to conduct our business and can adversely affect our results of operations and financial condition. We may face claims of being in violation of regulatory requirements, including as to the implementation of number portability. We also face intense competition. Further, companies in our industry are exposed to a number of legal claims, including class actions, and recent legislation has made it easier to assert class actions. See Risk Factors.

Competitive Strengths

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

Unique combination of leading market position and strong operational momentum. In the last year, we have achieved market-leading subscriber and revenue growth while steadily strengthening our operating margins.

Strong and distinctive own brand. Our established brand enjoys strong recognition in Israel. Since 2004, we have made the enhancement of our image among consumers a top priority and have invested substantial resources to position Cellcom as a local cellular company.

Transmission infrastructure and landline services. We have an advanced fiber-optic transmission infrastructure that consists of approximately 1,300 kilometers of inland fiber-optic cable, which, together with our complementary microwave-based infrastructure, connects the majority of our cell sites and provides for substantially all of our backhaul services. Our transmission infrastructure significantly reduces our operational reliance on Bezeq, the incumbent landline operator in Israel, while also saving us substantial infrastructure-leasing cash costs.

Strategic relationship with a leading group of local and international shareholders. Our ultimate parent company, IDB, is one of the largest business groups in Israel. We enjoy access, through our management services agreement, to the senior management of the IDB group, who are some of the most experienced managers in Israel. In 2006, our shareholder base was broadened as a result of IDB's sale of minority stakes to a series of highly regarded international and local financial investors, including affiliates of Goldman Sachs, Bank Leumi, Migdal Group and the First International Bank of Israel.

Strong management team. Since IDB acquired control of us in September 2005, we have put in place a team of seasoned managers with significant experience and solid track records in previous managerial positions.

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Strong cash flow generation. We have a proven track record of strong financial performance and profitability with cash operating margins that have been higher than those of our principal competitors. This performance has allowed us to distribute dividends to our shareholders.

Notwithstanding our strengths, we face intense competition in our industry from competitors with strong market shares, and our results of operations may be adversely affected by measures that we take to maintain our market share.

Business Strategy

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

Maximize customer satisfaction, retention and growth. Our growth strategy is focused on retaining our subscribers and expanding the selection of services and products we offer to our subscribers in order to enhance customer satisfaction and increase average revenues per user, or ARPU. In addition to providing quality customer service, we also strive to retain our subscribers and attract new subscribers by offering them advanced handsets, handset upgrades, attractive calling plans and value-added services. In 2006, we introduced a churn lab that identifies subscribers at high risk of churn and seeks to preemptively approach them with tailored solutions to maintain their satisfaction with our services.

Grow and develop our Internet, content and data services. The usage of cellular content and data services in Israel is currently relatively low compared to western European countries and we believe that we have significant growth potential in this field. We intend to continue to invest in the deployment of our high speed UMTS/HSDPA network, which covered 80% of the populated territory of Israel at the end of 2006. We also plan to expand our content and data services, products and capabilities through in-house expertise and strategic relationships with leading cellular content providers.

Grow roaming revenues. We have experienced steady growth in roaming revenues since 2003 and believe that roaming presents an important source of future revenue and profit growth for us. We currently have GSM roaming agreements with over 450 operators in 167 countries, of which 45 operators in 27 countries are also 3G operators, and we aim to increase our number of relationships.

Further develop and strengthen the Cellcom brand. External market surveys that we have commissioned indicate that brand recognition has become an increasingly important factor in subscriber selection of, and loyalty to, a cellular operator. Due to our extensive efforts in the past few years, we believe that we have established the Cellcom brand as one of the most recognized and respected consumer brands in Israel. We plan to continually enhance our brand through maintaining our high network quality, the provision of innovative products and services, quality customer service and investments in advertising and promotional campaigns.

Optimize our cost structure. We intend to continue our efforts to control costs so that we can improve profitability while also improving the quality of our services. We intend to continue to focus on identifying further opportunities to manage our costs without reducing the quality of our service.

Capitalize on our existing infrastructure to selectively provide landline telephony services. Our 1,300 kilometer inland fiber-optic network and our microwave infrastructure provide us with the ability to offer cost-efficient landline telecommunications solutions. We hold a license to operate a landline service in Israel and, since July 2006, we offer our landline telephony service to selected businesses.

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However, as we operate in a highly regulated industry, compliance with our licenses and applicable laws and regulations may limit our freedom to conduct our business and implement our strategies, and may thereby adversely affect our results of operations and financial condition.

Additional Information

Our principal executive offices are located at 10 Hagavish Street, Netanya, Israel 42140 and our telephone number is (972) 52-999-0052. Our website is www.cellcom.co.il. Information in or connected to our website is not part of this prospectus.

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THE OFFERING

The offering	18,975,000 ordinary shares offered by the selling shareholders.
Ordinary shares to be outstanding after this offering	97,500,000 ordinary shares
Over-allotment option	The selling shareholders have granted the underwriters a 30-day option to purchase up to 2,846,250 ordinary shares to cover over- allotments.
Use of proceeds	We will not receive any proceeds from the offering.
Dividend policy	Our Board of Directors has adopted a dividend policy to distribute each year at least 75% of our annual net income, subject to applicable law, our license and our contractual obligations (which currently limit distribution of dividends) and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board of Directors. 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. See Dividend Policy. We currently expect that the quarterly dividend we will declare for the first quarter of 2007, which may be funded out of a combination of net income, existing retained earnings and/or a portion of the approximately NIS 280 million of retained earnings described under Operating and Financial Review and Prospects Overview New Israeli accounting standard affecting measurement of fixed assets, will be NIS 1.4 per share. Any dividends must be declared by our Board of Directors, which will take into account the factors set out above. The amount of dividends per share we will pay for the first quarter does not necessarily reflect dividends that will be paid for future quarterly periods, which can change at any time in accordance with the policy described under Dividend Policy.
New York Stock Exchange symbol	CEL

Unless we specifically state otherwise, the information in this prospectus:

does not take into account the sale of up to 2,846,250 ordinary shares which the underwriters have the option to purchase from the selling shareholders to cover over-allotments;

does not take into account the exercise of any options to purchase ordinary shares, approximately 2.4 million of which are outstanding as of November 5, 2006 at an exercise price of \$12.60 per share;

gives effect to a 10-for-1 share split and a distribution of approximately 84.5 ordinary shares to all shareholders for each outstanding ordinary share, both of which were effected on October 12, 2006 in order to avoid the need to issue fractional shares upon option exercise; and

assumes the amendment of our articles of association upon the completion of this offering.

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You should read the following summary consolidated financial data in conjunction with the section of this prospectus entitled "Operating and Financial Review and Prospects" and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

We prepare our consolidated financial statements in accordance with Israeli GAAP. The summary information also includes certain items in accordance with U.S. GAAP. Israeli GAAP differs in certain significant respects from U.S. GAAP. For a summary of the principal differences, see note 28 to our consolidated annual financial statements included elsewhere in this prospectus.

Pursuant to Israeli GAAP, until December 31, 2003, we prepared our financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency, the NIS, based upon changes in the Israeli consumer price index, or Israeli CPI. Accordingly, among other things, non-monetary items (such as fixed assets) were adjusted based on the changes in the Israeli CPI from the Israeli CPI published for the month in which the transaction relating to the asset took place up to the Israeli CPI at the date of the balance sheet. Starting January 1, 2004, the adjustment of financial statements for the impact of the changes in the purchasing power of the Israeli currency was discontinued. The adjusted amounts included in the financial statements as of December 31, 2003 constitute the starting point for the nominal financial report as of January 1, 2004. Any additions made from January 1, 2004 are included at their nominal values.

For your convenience, the following tables also contain U.S. dollar translations of the NIS amounts presented as of September 30, 2006, translated using the rate of NIS 4.302 to \$1.00, the representative rate of exchange on September 30, 2006, as published by the Bank of Israel.

	Year Ended December 31,			Nine Months Ended September 30,		
	2003	2004	2005	2005	2006	2006 (In \$)
(In NIS millions, except per share data)						
Income Statement Data:						
Revenues	5,261	5,600	5,114	3,845	4,191	974
Cost of revenues	3,075	3,302	3,133	2,264	2,470	574
Gross profit	2,186	2,298	1,981	1,581	1,721	400
Selling and marketing expenses	613	661	623	453	473	110
General and administrative expenses	682	684	656	512	486	113
Operating income	891	953	702	616	762	177
Financial income (expenses), net	(216)	(45)	24	13	(128)	(30)
Other income (expenses), net	1	1	(11)	(10)	(1)	0
Income tax	245	292	232	201	243	56
Net income	431	617	483	418	390	91
Basic and diluted net income per share	4.42	6.33	4.95	4.29	4.00	0.93
	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000	97,500,000

Weighted average ordinary shares outstanding						
Dividends declared per share(1)			34.87		4.41	1.03
U.S. GAAP Income Statement Data(2):						
Net income	441	620	491	460	374	87
Basic and diluted earnings	4.52	6.36	5.04	4.72	3.84	0.89

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	Year Ended December 31,			Nine Months Ended September 30,		
	2003	2004	2005	2005	2006	2006 (In \$)
(In NIS millions, except per share data)						
Other Data:						
EBITDA(3)	1,890	1,914	1,643	1,320	1,429	332
Subscribers (end of period)(4)	2,300	2,450	2,603	2,554	2,828	
Period churn rate(5)	27.3%	19.9%	15.0%	10.5%	12.4%	
ARPU (in NIS)(6)	162	174	151	154	152	35
Average monthly usage per subscriber (in minutes of use, or MOU)(7)	316	334	321	326	336	

As of September 30, 2006

(In NIS millions)

Balance Sheet Data:	
Cash	118
Working capital	180
Total assets	5,014
Shareholders' equity	184
U.S. GAAP Data(2):	
Total assets	9,085
Shareholders' equity	4,018

(1) All dividends declared were paid in cash in the first nine months of 2006.

(2) Under U.S. GAAP, DIC's acquisition of our shares in 2005 is treated as a purchase that requires a revaluation of our assets and liabilities, leading to increased amortization expense of intangible assets, offset by decreased depreciation expense of tangible assets under U.S. GAAP. In addition, we were required to push down certain DIC debt and the interest expense relating to such debt incurred to finance the acquisition until it was repaid in early 2006, leading to increased financial expense under U.S. GAAP. See note 28 to our consolidated financial statements. As a result of this accounting treatment, U.S. GAAP data presented for the year ended and as at December 31, 2005 and for the nine months ended and as at September 30, 2006 are not comparable with the data presented for the previous periods.

(3) EBITDA is a non-GAAP measure and is defined as income before financial income (expenses), net; other income (expenses), net; income tax; depreciation and amortization. We present EBITDA as a supplemental performance measure because we believe that it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structure (most particularly affecting our interest expense given our recently incurred significant debt), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses or, most recently, our provision for tax expenses) and the age of, and depreciation expenses associated with, fixed assets (affecting relative depreciation expense and, until December 31, 2003, the effects of adjusting for changes in the general

purchasing power of the Israeli currency as discussed above). EBITDA should not be considered in isolation or as a substitute for operating income or other statement of operations or cash flow data prepared in accordance with GAAP as a measure of our profitability or liquidity. EBITDA does not take into account our debt service requirements and other commitments, including capital expenditures, and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. In addition, EBITDA, as presented in this prospectus, may not be comparable to similarly titled measures reported by other companies due to differences in the way that these measures are calculated.

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The following is a reconciliation of net income to EBITDA:

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(In NIS millions)				
Net income	431	617	483	418	390
Financial expense (income), net	216	45	(24)	(13)	128
Other expenses (income)	(1)	(1)	11	10	1
Income taxes	245	292	232	201	243
Depreciation and amortization	999	961	941	704	667
EBITDA	1,890	1,914	1,643	1,320	1,429