Cellcom Israel Ltd.
Form 6-K
August 04, 2017
**FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Report of Foreign Private Issuer**

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For August 8, 2017

Commission File Number: 001-33271

**CELLCOM ISRAEL LTD.**

10 Hagavish Street

Netanya, Israel 4250708

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(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

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

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not Applicable

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**Item 1**

**Cellcom Israel announces**

**second Quarter 2017 Results**
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***Cellcom Israel concludes the second quarter of 2017 with net income of NIS 45 million and EBITDA[1] of NIS 237 million.***

***Nir Sztern, Cellcom CEO said: "Again in this quarter we maintained the high subscription rates: Cellcom tv with an addition of approximately 13,000 households that chose the best television in Israel and the internet infrastructure field with an addition of 16,000 households. We continue to strengthen our position as the significant recruiters in these markets."***

***"The results of the second quarter of 2017 reflect an improvement in financial parameters compared with the previous quarter, in a period of intense competition."***

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Second Quarter 2017 Highlights *(compared to second quarter of 2016):*

§ **Total Revenues** totaled NIS 962 million ($275 million) compared to NIS 1,029 million ($294 million) in the second quarter last year, a decrease of 6.5%

§ **Service revenues** totaled NIS 731 million ($209 million) compared to NIS 782 million ($224 million) in the second quarter last year, a decrease of 6.5%

- **Operating income** totaled NIS 102 million ($29 million) compared to NIS 104 million ($30 million) in the second quarter last year, a decrease of 1.9%

- **Net income** totaled NIS 45 million ($13 million) compared to NIS 44 million ($13 million) in the second quarter last year, an increase of 2.3%

- **Net income margin** 4.7%, an increase from 4.3% in the second quarter last year

- **EBITDA**[1] totaled NIS 237 million ($68 million) compared to NIS 238 million ($68 million) in the second quarter last year, a decrease of 0.4%

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

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- **EBITDA margin** 24.6%, an increase from 23.1% in the second quarter last year

- **Net cash from operating activities** totaled NIS 278 million ($80 million) compared to NIS 204 million ($58 million) in the second quarter last year, an increase of 36.3%

- **Free cash flow**[1] totaled NIS 77 million ($22 million) compared to NIS 103 million ($29 million) in the second quarter last year, a decrease of 25.2%

- **Cellular subscriber base** totaled approximately 2.779 million subscribers (at the end of June 2017)

**Nir Sztern, the Company's Chief Executive Officer, referred to the results of the second quarter of 2017:**

"The results of the second quarter of 2017 reflect an improvement in the financial parameters compared to the previous quarter, in a period of intense competition. In the current quarter, net income increased to NIS 45 million, compared with NIS 26 million in the previous quarter, and revenues were stable and amounting to NIS 962 million, compared to NIS 959 million in the previous quarter. In addition, in the current quarter, EBITDA amounted to NIS 237 million, compared to NIS 201 million in the previous quarter.

Again in this quarter we continued to present rapid growth in the fixed-line worlds that solidify our position as a communications group. The net increase in television households was approximately 13,000 and the net increase in wholesale market households was approximately 16,000. The addition of content from the prestigious HBO content provider to the Cellcom tv service and the launching of the Quattro package in the previous quarter, were received by our customers as significant value proposals, solidifying their choice of us and reinforcing our strategy."

**Shlomi Fruhling, Chief Financial Officer, said:**

“The second quarter of 2017 was characterized by continued growth in the fixed-line segment and continued competition in the cellular field. The network sharing agreement with Golan came into force as of the beginning of the second quarter of 2017. According to the terms of the agreement, part of the consideration is recognized as revenues and part is recognized as a reduction of operation costs. In addition, revenues from the agreement are now divided between the cellular and fixed-line segments.

Service revenues from the cellular segment decreased by 5.5% compared to the previous quarter. The decrease resulted from the implementation of the network sharing agreement with Golan and was partly offset by an increase in revenues from customers mainly as a result of seasonality. Excluding the effect of the classification of the consideration according to the network sharing agreement with Golan on the cellular segment revenues, the cellular ARPU increased by NIS 0.8 compared to the previous quarter. The service revenues in the fixed-line segment increased by 4.7% compared to the previous quarter. This increase resulted mainly from revenues from fixed-line communications services provided under the network sharing agreement with Golan, as well as increase in revenues from internet and TV services. The EBITDA of the fixed-line segment increased by 88.1% compared to the previous quarter. The increase resulted from increase in the segment revenues, the recognition of a gain of approximately NIS 10 million from the sale of the Group's holdings in Internet Rimon Israel 2009 Ltd and from decrease in the operating expenses of the segment.

Free cash flow for the second quarter of 2017 totaled NIS 77 million, a 16.7% increase compared to the previous quarter. The increase in free cash flow resulted from higher receipts from customers which was partly offset by higher capital expenditures in fixed assets and intangible assets in the current quarter.

The Company’s Board of Directors decided not to distribute a dividend for the second quarter of 2017, given the continued intensified competition in the market and its effect on the Company's operating results and in order to further strengthen the Company's balance sheet. The Board of Directors will re-evaluate its decision as market conditions develop, and taking into consideration the Company's needs."

**Netanya, Israel – August 8, 2017** – Cellcom Israel Ltd. (NYSE: CEL; TASE: CEL) ("Cellcom Israel" or the "Company" or the "Group") announced today its financial results for the second quarter of 2017.

The Company reported that revenues for the second quarter of 2017 totaled NIS 962 million ($275 million); EBITDA for the second quarter of 2017 totaled NIS 237 million ($68 million), or 24.6% of total revenues; net income for the second quarter of 2017 totaled NIS 45 million ($13 million). Basic earnings per share for the second quarter of 2017 totaled NIS 0.45 ($0.13).

**Main Consolidated Financial Results:**

| | Q2/2017 | Q2/2016 | Change% | Q2/2017 | Q2/2016 |
|---|---|---|---|---|---|
| | NIS million | | | US$ million (convenience translation) | |
| Total revenues | **962** | 1,029 | (6.5%) | **275** | 294 |
| Operating Income | **102** | 104 | (1.9%) | **29** | 30 |
| Net Income | **45** | 44 | 2.3% | **13** | 13 |
| Free cash flow | **77** | 103 | (25.2%) | **22** | 29 |
| EBITDA | **237** | 238 | (0.4%) | **68** | 68 |
| EBITDA, as percent of total revenues | **24.6%** | 23.1% | 6.5% | | |

**Main Financial Data by Operating Segments:**

| | Cellular (*) | | | Fixed-line (**) | | | Consolidation adjustments (***) | | Consolidated results | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **NIS million** | **Q2'17** | **Q2'16** | **Change %** | **Q2'17** | **Q2'16** | **Change %** | **Q2'17** | **Q2'16** | **Q2'17** | **Q2'16** | **Change %** |
| Total revenues | **673** | 784 | (14.2%) | **331** | 294 | 12.6% | **(42)** | (49) | **962** | 1,029 | (6.5%) |
| Service revenues | **481** | 567 | (15.2%) | **292** | 264 | 10.6% | **(42)** | (49) | **731** | 782 | (6.5%) |
| Equipment revenues | **192** | 217 | (11.5%) | **39** | 30 | 30.0% | **-** | - | **231** | 247 | (6.5%) |
| EBITDA | **158** | 181 | (12.7%) | **79** | 57 | 38.6% | **-** | - | **237** | 238 | (0.4%) |
| EBITDA, as percent of total revenues | **23.5%** | 23.1% | 1.7% | **23.9%** | 19.4% | 23.2% | | | **24.6%** | 23.1% | 6.5% |

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

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

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

**Financial Review (second quarter of 2017 compared to second quarter of 2016):**

**Revenues** for the second quarter of 2017 decreased 6.5% totaling NIS 962 million ($275 million), compared to NIS 1,029 million ($294 million) in the second quarter last year. The decrease in revenues is attributed to a 6.5% decrease in service revenues and a 6.5% decrease in equipment revenues.

**Service revenues** totaled NIS 731 million ($209 million) in the second quarter of 2017, a 6.5% decrease from NIS 782 million ($224 million) in the second quarter last year.

**Service revenues in the cellular segment** totaled NIS 481 million ($138 million) in the second quarter of 2017, a 15.2% decrease from NIS 567 million ($162 million) in the second quarter last year. This decrease resulted from the gap between the national roaming services revenues in the second quarter of 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as the beginning of the second quarter of 2017 and from a decrease in cellular service revenues. The decrease in cellular services revenues resulted from the ongoing erosion in the prices of these services and churn of customers as a result of the competition in the cellular market.

**Service revenues in the fixed-line segment** totaled NIS 292 million ($84 million) in the second quarter of 2017, a 10.6% increase from NIS 264 million ($76 million) in the second quarter last year. This increase resulted mainly from fixed-line communications services provided according to the network sharing agreement with Golan which came into force as the beginning of the second quarter of 2017 as well as increase in revenues from internet and TV services.

**Equipment revenues** totaled NIS 231 million ($66 million) in the second quarter of 2017, a 6.5% decrease compared to NIS 247 million ($71 million) in the second quarter last year. This decrease resulted mainly from a decrease in the amount of end user equipment sold in the cellular segment. This decrease was partially offset by an increase in equipment sales in the fixed-line segment.

**Cost of revenues** for the second quarter of 2017 totaled NIS 665 million ($190 million), compared to NIS 666 million ($191 million) in the second quarter of 2016, a 0.2% decrease. This decrease resulted mainly from Golan's participation in operating costs according to the network sharing agreement which came into force as of the beginning of the second quarter of 2017. The decrease was partially offset by an increase in costs of TV services content and in costs related to internet services in the fixed-line segment.

**Gross profit** for the second quarter of 2017 decreased 18.2% to NIS 297 million ($85 million), compared to NIS 363 million ($104 million) in the second quarter of 2016. Gross profit margin for the second quarter of 2017 amounted to 30.9%, down from 35.3% in the second quarter of 2016.

**Selling, Marketing, General and Administrative Expenses** ("SG&A Expenses") for the second quarter of 2017 decreased 15.5% to NIS 207 million ($59 million), compared to NIS 245 million ($70 million) in the second quarter of 2016. This decrease is primarily a result of a decrease in salaries and commissions expenses due to capitalization of part of the customer acquisition costs as a result of early adoption of a new International Financial Reporting Standard (IFRS 15) since the first quarter of 2017. The effect of the adoption of the standard on the second quarter of 2017 expenses is in a total amount of NIS 20 million ($6 million). In addition, the decrease in expenses resulted from the Company's continuous efforts to reduce ongoing operating expenses.

**Other income** for the second quarter of 2017 totaled NIS 12 million ($3 million), compared with other expenses of NIS 14 million ($4 million) in the second quarter of 2016. Other income for the second quarter of 2017 mainly include a gain from the sale of Internet Rimon Israel 2009 Ltd., an indirect subsidiary of the Company, in the amount of approximately NIS 10 million ($3 million), compared to an expense for employee voluntary retirement plan in the amount of approximately NIS 13 million ($4 million) in the second quarter of 2016.

**Operating income** for the second quarter of 2017 decreased by 1.9% to NIS 102 million ($29 million) from NIS 104 million ($30 million) in the second quarter of 2016.

**EBITDA** for the second quarter of 2017 decreased by 0.4% totaling NIS 237 million ($68 million) compared to NIS 238 million ($68 million) in the second quarter of 2016. EBITDA as a percent of revenues for the second quarter of 2017 totaled 24.6%, up from 23.1% in the second quarter of 2016.

Cellular segment EBITDA for the second quarter of 2017 totaled NIS 158 million ($45 million), compared to NIS 181 million ($52 million) in the second quarter last year, a decrease of 12.7%, which resulted mainly from the gap between national roaming services revenues in the second quarter of 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as the beginning of the second quarter of 2017 and from the ongoing erosion in the service revenues. The decrease was partially offset by a decrease in selling and marketing expenses due to the capitalization of part of the customer acquisition costs as a result of early adoption of a new International Financial Reporting Standard (IFRS15) since the first quarter of 2017. Fixed-line segment EBITDA for the second quarter of 2017 totaled NIS 79 million ($23 million), compared to NIS 57 million ($16 million) in the second quarter last year, a 38.6% increase, mainly as a result of a decrease in operating expenses and an increase in revenues from fixed-line communications services provided according to the network sharing agreement with Golan as well as a gain from the sale of Internet Rimon Israel 2009 Ltd., an indirect subsidiary of the Company.

**Financing expenses, net** for the second quarter of 2017 were similar to the second quarter of 2016 and totaled NIS 44 million ($12 million).

**Net Income** for the second quarter of 2017 totaled NIS 45 million ($13 million), compared to NIS 44 million ($13 million) in the second quarter of 2016, an increase of 2.3%.

**Basic earnings per share** for the second quarter of 2017 totaled NIS 0.45 ($0.13), compared to NIS 0.43 ($0.12) in the second quarter last year.

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Operating Review

**Main Performance Indicators - Cellular segment**:

| | Q2/2017 | Q2/2016 | Change (%) |
|---|---|---|---|
| Cellular subscribers at the end of period (in thousands) | **2,779** | 2,812 | (1.2%) |
| Churn Rate for cellular subscribers (in %) | **10.8%** | 10.6% | 1.9% |
| Monthly cellular ARPU (in NIS) | **57.0** | 66.0 | (13.6%) |

**Cellular subscriber base** - at the end of the second quarter of 2017 the Company had approximately 2.779 million cellular subscribers. During the second quarter of 2017 the Company's cellular subscriber base decreased by approximately 13,000 net cellular subscribers.

**Cellular Churn Rate** for the second quarter of 2017 totaled to 10.8%, compared to 10.6% in the second quarter last year.

The monthly cellular **Average Revenue per User ("ARPU")** for the second quarter of 2017 totaled NIS 57.0 ($16.3), compared to NIS 66.0 ($18.9) in the second quarter last year. The decrease in ARPU resulted from the gap between national roaming services revenues in the second quarter of 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as of the beginning of the second quarter of 2017 and from the ongoing erosion in the prices of cellular services, resulting from the intense competition in the cellular market.

Main Performance Indicators - Fixed-line segment:

| | Q2/2017 | Q2/2016 | Change (%) |
|---|---|---|---|
| **Internet infrastructure field-** households at the end of period (in thousands) | **189** | 136 | 39.0% |
| **TV field-** households at the end of period (in thousands) | **137** | 87 | 57.5% |

In the second quarter of 2017, the Company's households base in respect of the internet infrastructure field increased by approximately 16,000 net households, and the Company's households base in the TV field increased by 13,000 net households.

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Financing and Investment Review

Cash Flow

**Free cash flow** for the second quarter of 2017 totaled NIS 77 million ($22 million), compared to NIS 103 million ($29 million) in the second quarter of 2016, a 25.2% decrease. The decrease in free cash flow, resulted mainly from higher cash capital expenditures in fixed assets and intangible assets in the second quarter of 2017 compared to the second quarter of 2016, which was partly offset by decrease in payments to end user equipment suppliers in the cellular segment.

Total Equity

Total Equity as of June 30, 2017 amounted to NIS 1,398 million ($400 million) primarily consisting of undistributed accumulated retained earnings of the Company.

Cash Capital Expenditures in Fixed Assets and Intangible Assets

During the second quarter of 2017, the Company invested NIS 191 million ($55 million) in fixed assets and intangible assets (including, among others, investments in the Company's communications networks, information systems, software and TV set-top boxes and capitalization of part of the customer acquisition costs as a result of early adoption of a new International Financial Reporting Standard (IFRS 15) since the first quarter of 2017), compared to NIS 102 million ($29 million) in the second quarter 2016.

Dividend

On August 7, 2017, the Company's Board of Directors decided not to declare a cash dividend for the second quarter of 2017. In making its decision, the board of directors considered the Company's dividend policy and business status and decided not to distribute a dividend at this time, given the intensified competition and its adverse effect on the Company's results of operations, and in order to strengthen the Company's balance sheet. The board of directors will re-evaluate its decision in future quarters. No future dividend declaration is guaranteed and is subject to the Company's board of directors’ sole discretion, as detailed in the Company's annual report for the year ended December 31, 2016 on Form 20-F dated March 20, 2017, or the 2016 Annual Report, under “Item 8 - Financial Information – A. Consolidated Statements and Other Financial Information - Dividend Policy”.

Debentures

For information regarding a summary of the Company's financial liabilities and details regarding the Company's outstanding debentures as of June 30, 2017, see "Disclosure for Debenture Holders" as well as section "other developments during the second quarter of 2017 and subsequent to the end of the reporting period- Debt Raising-Private Debentures Placement" in this press release.

Loans from Financial Institutions

According to a loan agreement entered by the Company and two financial institutions in May 2015, in June 2017 the second loan under the agreement in a principal amount of NIS 200 million was provided to the Company. The loan is without linkage and the principal amount bears an annual fixed interest of 5.1%, and will be paid in four equal annual payments on June 30 of each calendar year commencing June 30, 2019 through and including June 30, 2022. The interest will be paid in ten semi-annual installments on June 30 and December 31, of each calendar year commencing December 31, 2017 through and including June 30, 2022.

For details regarding the fulfillment of financial covenants included in the loan agreements, which are identical to those included in the Company's Debentures Series F through K, see comment no.1 to the table of "Aggregation of the information regarding the debenture series issued by the Company" under "Disclosure for Debenture Holders" section in this press release. For additional details regarding the loans see the Company's 2016 Annual Report, under "Item 5B. Liquidity and Capital Resources – Other Credit Facilities".

**other developments during the second quarter of 2017 and subsequent to the end of the reporting period**

**Regulation**

Wholesale Market

In June 2017, the Ministry of Communications published the maximum tariffs for Hot Telecom L.P., or Hot, wholesale internet infrastructure services (after a petition filed by Hot against the Ministry of Communications in February 2017, claiming the Ministry of Communications was required to hold another hearing prior to setting maximum tariffs, was dismissed). Due to disagreements with Hot as to the implementation of the service (which await resolution by the Ministry of Communications), it is unclear when the service - which was to be offered by Hot as of February 2015 – will be offered. The maximum tariffs set are higher than those set for Bezeq the Israeli Telecommunications Company Ltd., or Bezeq, the other wholesale internet service provider.

In addition, in June 2017, the Ministry of Communications published regulations setting Bezeq's resale telephony service to be provided by Bezeq as of July 2017, as a temporary 14 month alternative for wholesale landline telephony service. In addition, the Ministry of Communications resolved that Bezeq's obligation to offer wholesale telephony service, which was to be offered by Bezeq as of May 2015, will be postponed until the lapse of said resale telephony service period. The resolution further notes that the Ministry of Communications will consider the resale telephony service as a permanent replacement of the telephony wholesale service. The tariffs set for the resale telephony service are substantially higher than those set for Bezeq's telephony wholesale service.

The Ministry of Communications is holding a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion.

For additional details see the Company's annual report for 2016 under “Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business” and "Item 4. Information on the Company – B. Business Overview –Competition – Fixed-line Segment – Internet infrastructure and ISP business", "- Landline telephony" and "- Government Regulation – Fixed-line Segment – Wholesale landline market".

Cellular License Amendment

In July 2017, following the previously reported amendment to the Company's cellular license in relation to the requirement that Israeli citizens and residents from among the Company's founding shareholders hold at least 5% of the Company's outstanding shares and other means of control, as of July 2017, the Israeli Ministry of Communications amended the Company's cellular license so as to postpone the application of such requirement until October 31, 2017.

For additional details see the Company's Annual Report for 2016 under “Item 3. Key Information – D. Risk Factors - Risks Related to our Business – There are certain restrictions in our licenses relating to the ownership of our shares" and "Item 4. Information on the Company – B. Business Overview – Government Regulations – Cellular Segment – Our Cellular License".

**Change in Independent Auditors**

In July 2017, Keselman & Keselman, a member of PricewaterhouseCoopers International Limited, one of the Company's joint independent auditors consensually ceased serving as the Company's joint independent auditor, and Somekh Chaikin, a member of KPMG International, the Company's other joint independent auditor, will continue to serve as the Company's independent auditor until the 2017 annual general meeting of shareholders.

During the tenure of Keselman & Keselman as one of the Company's joint independent auditors, no report on the Company's financial statements contained an adverse opinion or a disclaimer of an opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles. In addition, during such tenure and the subsequent interim period, there were no disagreements on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure.

**Debt Raising**

Private Debentures Placement

In June 2017, the Company entered into an agreement with certain Israeli institutional investors, according to which the Company irrevocably undertook to issue to the institutional investors, and the institutional investors irrevocably undertook to purchase from the Company, NIS

220 million aggregate principal amount of additional debentures of the existing series K debentures (which are listed on the Tel Aviv Stock Exchange, or TASE), on July 1, 2018, or the Agreed Date.

The price was set at NIS 1.011 for each Series K debenture (which bear a stated interest rate of 3.55% per annum) of NIS 1 principal amount, or a total consideration of approximately NIS 222 million, reflecting an effective interest yield of 3.6% per annum. The Company is required to pay a certain commitment fee to the institutional investors. In case the debentures' rating on the Agreed Date shall be il/(A-) or below, the price shall be reduced to NIS 1.001 for each Series K debenture of NIS 1 principal amount.

The closing of the issuance will be subject to certain customary conditions, including: the receipt of the TASE's approval, the absence of any event of default under the series K debentures indenture, the Company having an Israeli shelf prospectus in force, and satisfaction of the conditions set out in the series K debentures indenture for the issuance of additional K debentures (meaning, aside from the no events of default condition detailed above, that the issuance of additional debentures itself will not cause a rating downgrade compared to the rating prior to such issuance, and that the Company meets the financial covenants applicable to the series K debentures on the date of such issuance and thereafter). In June 2017, the TASE granted the Company the said requisite approval.

In relation to the said offering, the Company's rating agency reaffirmed the current rating of ilA+/stable for the Company and its debentures.

*The offering described in this press release was made only in Israel and only to residents of Israel. The said debentures will not be registered under the U.S. Securities Act of 1933 and will not be offered or sold in the United States. This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities.*

<u>Loan Agreement</u>

In June 2017, the Company entered into a loan agreement with an Israeli bank that provided the Company a similar loan in August 2015 (the "Lender" and the "2015 Loan Agreement", respectively), according to which the Lender has agreed, subject to certain customary conditions, to provide the Company a deferred loan in a principal amount of NIS 150 million, unlinked, which will be provided to the Company in March 2019, and will bear an annual fixed interest of 4%. The loan's principal amount will be payable in four equal annual payments on March 31 of each of the years 2021 through and including 2024 and the interest will be payable in ten semi-annual installments on March 31 and September 30 of each calendar year commencing September 30,2019 through and including March 31, 2024. Until the provision of the loan, the Company is required to pay the Lender a commitment fee.

The agreement includes similar terms and obligations to those included in the Company's August 2015 loan agreement and applies the right to demand immediate repayment of either or both agreements due to certain events of default under either agreement.

For additional details regarding the Company's existing debentures and existing loan agreements, including the August 2015 loan agreement, see the Company's 2016 Annual Report under "Item 5B. Liquidity and Capital Resources – Debt Service – Public Debentures" and "-Other Credit Facilities" and the Company's current report on Form 6-K dated June 1, 2017.

**Sale of Indirect Subsidiary of the company**

In June 2017, the previously reported sale of 013 Netvision Ltd. (the Company's wholly owned indirect subsidiary) holdings in Internet Rimon Israel 2009 Ltd. was completed.

For additional details see the Company's current report on Form 6-K dated May 24, 2017 under "Other developments during the first quarter of 2017 and subsequent to the end of the reporting period - Sale of Indirect Subsidiary".

**Changes in Management- Vice President of Business Customers**

In July 2017, Ms. Keren Shtevy notified the Company of her resignation from her position as the Company's vice president of business customers, and will be leaving the Company on August 15, 2017, after 19 years of successful and extensive tenure in 013 Netvision Ltd. and the Company. The Company's board of directors has nominated Mr. Nadav Amsalem as the Company's vice president of business customers, effective July 20, 2017.

*Nadav Amsalem has served as head of the strategic customers department in the Company's business customers division, in charge of the major corporate business customers from 2014. From 2011 to 2014, he served as the director of strategic landline customers and major business customers sector. Mr. Amsalem has been a member of the Company's business customer's division since 2006.*

**IDB**

In May 2017, IDB Development Corporation Ltd., or IDB, the Company's indirect controlling shareholder, announced in connection to the Concentration Law (according to which IDB and Discount Investment Corporation Ltd., or DIC, may not retain control over the Company beyond December 2019 so long as the Company is a third layer company in their pyramidal structure), that after reviewing possible ways to deal with this restriction, IDB is proposing to sell its holdings in DIC to a private company controlled by IDB's controlling shareholder. There can be no assurance of how or when this would occur, if at all.

For information about the Concentration Law, see the Company's 2016 Annual Report, under "Item 3.D - legislation in Israel affecting corporate conglomerates could adversely affect us."

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**Conference Call Details**

The Company will be hosting a conference call regarding its results for the second quarter of 2017 on Tuesday, August 8, 2017 at 09:00 am ET, 06:00 am PT, 14:00 UK time, 16:00 Israel time. On the call, management will review and discuss the results, and will be available to answer questions. To participate, please either access the live webcast on the Company's website, or call one of the following teleconferencing numbers below. Please begin placing your calls at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

| | |
|---|---|
| US Dial-in Number: 1 866 652 8972 | UK Dial-in Number: 0 808 101 2717 |
| Israel Dial-in Number: 03 918 0608 | International Dial-in Number: +972 3 918 0608 |

at: 09:00 am Eastern Time; 06:00 am Pacific Time; 14:00 UK Time; 16:00 Israel Time

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

**About Cellcom Israel**

Cellcom Israel Ltd., established in 1994, is the largest Israeli cellular provider; Cellcom Israel provides its approximately 2.779 million cellular subscribers (as at June 30, 2017) with a broad range of value added services including cellular telephony, roaming services for tourists in Israel and for its subscribers abroad and additional services in the areas of music, video, mobile office etc., based on Cellcom Israel's technologically advanced infrastructure. The Company operates an LTE 4 generation network and an HSPA 3.5 Generation network enabling advanced high speed broadband multimedia services, in addition to GSM/GPRS/EDGE networks. Cellcom Israel offers Israel's broadest and largest customer service infrastructure including telephone customer service centers, retail stores, and service and sale centers, distributed nationwide. Through its broad customer service network Cellcom Israel offers technical support, account information, direct to the door parcel delivery services, internet and fax services, dedicated centers for hearing impaired, etc. Cellcom Israel further provides OTT TV services (as of December 2014), internet infrastructure (as of February 2015) and connectivity services and international calling services, as well as landline telephone communications services in Israel, in addition to data communications services. Cellcom Israel's shares are traded both on the New York Stock Exchange (CEL) and the Tel Aviv Stock Exchange (CEL). For additional information please visit the Company's website http://investors.cellcom.co.il.

**Forward-Looking Statements**

The following information contains, or may be deemed to contain forward-looking statements (as defined in the U.S. Private Securities Litigation Reform Act of 1995 and the Israeli Securities Law, 1968). In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “ “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about the Company, may include projections of the Company's future financial results, its anticipated growth strategies and anticipated trends in its business. These statements are only predictions based on the Company's current expectations and projections about future events. There are important factors that could cause the Company's actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause such differences include, but are not limited to: changes to the terms of the Company's license, new legislation or decisions by the regulator affecting the Company's operations, new competition and changes in the competitive environment, the outcome of legal proceedings to which the Company is a party, particularly class action lawsuits, the Company's ability to maintain or obtain permits to construct and operate cell sites, and other risks and uncertainties detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission, including under the caption “Risk Factors” in its Annual Report for the year ended December 31, 2016.

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

The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Unless noted specifically otherwise, the dollar denominated figures were converted to US$ using a convenience translation based on the New Israeli Shekel (NIS)/US$ exchange rate of NIS 3.496 = US$ 1 as published by the Bank of Israel for June 30, 2017.

**Use of non-IFRS financial measures**

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

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

| **Company Contact** | **Investor Relations Contact** |
|---|---|
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**Financial Tables Follow**

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**Cellcom Israel Ltd.**

(An Israeli Corporation)

**Condensed Consolidated Interim Statements of Financial Position**

| | June 30, 2016 | June 30, 2017 | Convenience translation into US dollar June 30, 2017 | December 31, 2016 |
|---|---|---|---|---|
| | NIS millions | | US$ millions | NIS millions |
| Assets | | | | |
| Cash and cash equivalents | 982 | 785 | 225 | 1,240 |
| Current investments, including derivatives | 284 | 360 | 103 | 284 |
| Trade receivables | 1,327 | 1,263 | 361 | 1,325 |
| Current tax assets | – | 52 | 15 | 25 |
| Other receivables | 68 | 88 | 25 | 61 |
| Inventory | 63 | 61 | 18 | 64 |
| Total current assets | 2,724 | 2,609 | 747 | 2,999 |
| Trade and other receivables | 813 | 915 | 262 | 796 |
| Property, plant and equipment, net | 1,682 | 1,619 | 463 | 1,659 |
| Intangible assets and others, net | 1,206 | 1,228 | 351 | 1,207 |
| Deferred tax assets | 6 | 1 | – | 1 |
| Total non- current assets | 3,707 | 3,763 | 1,076 | 3,663 |
| Total assets | 6,431 | 6,372 | 1,823 | 6,662 |
| Liabilities | | | | |
| Current maturities of debentures and of loans from financial institutions | 861 | 792 | 227 | 863 |
| Trade payables and accrued expenses | 638 | 622 | 178 | 675 |
| Current tax liabilities | 49 | 2 | 1 | – |
| Provisions | 115 | 108 | 31 | 108 |
| Other payables, including derivatives | 299 | 264 | 75 | 279 |
| Total current liabilities | 1,962 | 1,788 | 512 | 1,925 |
| Long-term loans from financial institutions | 200 | 462 | 132 | 340 |

| | | | | |
|---|---|---|---|---|
| Debentures | 2,796 | 2,524 | 722 | 2,866 |
| Provisions | 30 | 19 | 5 | 30 |
| Other long-term liabilities | 29 | 32 | 9 | 31 |
| Liability for employee rights upon retirement, net | 12 | 12 | 4 | 12 |
| Deferred tax liabilities | 112 | 137 | 39 | 118 |
| Total non- current liabilities | 3,179 | 3,186 | 911 | 3,397 |
| Total liabilities | 5,141 | 4,974 | 1,423 | 5,322 |
| Equity attributable to owners of the Company | | | | |
| Share capital | 1 | 1 | – | 1 |
| Cash flow hedge reserve | (2 ) | (1 ) | – | (1 ) |
| Retained earnings | 1,275 | 1,394 | 399 | 1,322 |
| Non-controlling interest | 16 | 4 | 1 | 18 |
| Total equity | 1,290 | 1,398 | 400 | 1,340 |
| Total liabilities and equity | 6,431 | 6,372 | 1,823 | 6,662 |

**Cellcom Israel Ltd.**

(An Israeli Corporation)

**Condensed Consolidated Interim Statements of Income**

| | For the six months ended June 30, | | Convenience translation into US dollar For the six months ended June 30, | For the three months ended June 30, | | Convenience translation into US dollar For the three months ended June 30, | For the year enc Decembe |
|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2017 | 2016 | 2017 | 2017 | 2016 |
| | NIS millions | | US$ millions | NIS millions | | US$ millions | NIS mill |
| Revenues | 2,051 | 1,921 | 549 | 1,029 | 962 | 275 | 4,027 |
| Cost of revenues | (1,336) | (1,330) | (380) | (666) | (665) | (190) | (2,702 |
| Gross profit | 715 | 591 | 169 | 363 | 297 | 85 | 1,325 |
| Selling and marketing expenses | (291) | (226) | (65) | (143) | (112) | (32) | (574 |
| General and administrative expenses | (205) | (208) | (59) | (102) | (95) | (27) | (420 |
| Other income (expenses), net | (14) | 12 | 3 | (14) | 12 | 3 | (21 |
| Operating profit | 205 | 169 | 48 | 104 | 102 | 29 | 310 |
| Financing income | 28 | 26 | 8 | 16 | 14 | 4 | 46 |
| Financing expenses | (96) | (101) | (29) | (60) | (58) | (16) | (196 |
| Financing expenses, net | (68) | (75) | (21) | (44) | (44) | (12) | (150 |
| Profit before taxes on income | 137 | 94 | 27 | 60 | 58 | 17 | 160 |
| Taxes on income | (34) | (23) | (7) | (16) | (13) | (4) | (10 |
| Profit for the period | 103 | 71 | 20 | 44 | 45 | 13 | 150 |
| Attributable to: | | | | | | | |
| Owners of the Company | 102 | 70 | 20 | 44 | 45 | 13 | 148 |
| Non-controlling interests | 1 | 1 | – | – | – | – | 2 |
| Profit for the period | 103 | 71 | 20 | 44 | 45 | 13 | 150 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Earnings per share | | | | | | | |
| Basic earnings per share (in NIS) | 1.01 | 0.70 | 0.20 | 0.43 | 0.45 | 0.13 | 1.47 |
| Diluted earnings per share (in NIS) | 1.01 | 0.69 | 0.20 | 0.43 | 0.45 | 0.13 | 1.47 |
| Weighted-average number of shares used in the calculation of basic earnings per share (in shares) | 100,604,578 | 100,605,503 | 100,605,503 | 100,604,578 | 100,606,203 | 100,606,203 | 100,604 |
| Weighted-average number of shares used in the calculation of diluted earnings per share (in shares) | 100,604,578 | 101,340,873 | 101,340,873 | 100,705,952 | 101,265,547 | 101,265,547 | 100,698 |

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**Cellcom Israel Ltd.**

(An Israeli Corporation)

**Condensed Consolidated Interim Statements of Cash Flows**

| | For the six months ended June 30, | | Convenience translation into US dollar For the six months ended June 30, | For the three months ended June 30, | | Convenience translation into US dollar For the three months ended June 30, | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2017 | 2016 | 2017 | 2017 | 2016 |
| | NIS millions | | US$ millions | NIS millions | | US$ millions | NIS millions |
| Cash flows from operating activities | | | | | | | |
| Profit for the period | 103 | 71 | 20 | 44 | 45 | 13 | 150 |
| Adjustments for: | | | | | | | |
| Depreciation and amortization | 267 | 269 | 77 | 132 | 136 | 39 | 534 |
| Share based payments | 3 | 2 | 1 | 1 | 1 | – | 6 |
| Loss (gain) on sale of property, plant and equipment | 3 | (2 ) | (1 ) | 2 | (2 ) | (1 ) | 10 |
| Gain on sale of shares in a consolidated company | – | (10 ) | (3 ) | – | (10 ) | (3 ) | – |
| Income tax expenses | 34 | 23 | 7 | 16 | 13 | 4 | 10 |
| Financing expenses, net | 68 | 75 | 21 | 44 | 44 | 12 | 150 |
| Changes in operating assets and liabilities: | | | | | | | |
| Change in inventory | 22 | 3 | 1 | 15 | 6 | 2 | 21 |
| Change in trade receivables (including long-term amounts) | (75 ) | 104 | 30 | (17 ) | 44 | 13 | (28 ) |
| Change in other receivables (including long-term amounts) | 15 | (166 | | | | | |