

NATUS MEDICAL INC
Form 10-Q
August 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

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

For the transition period from _____ to _____

Commission file number: 000-33001

NATUS MEDICAL INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1501 Industrial Road, San Carlos, CA 94070

(Address of principal executive offices) (Zip Code)

(650) 802-0400

77-0154833
(I.R.S. Employer
Identification No.)

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of issued and outstanding shares of the registrant's Common Stock, \$0.001 par value, as of August 1, 2007, was 21,640,090.

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NATUS MEDICAL INCORPORATED

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)****(in thousands, except share amounts)**

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,834	\$ 15,392
Short-term investments	518	
Accounts receivable, net of allowance for doubtful accounts of \$438 and \$552	22,321	20,347
Inventories	13,795	11,743
Prepaid expenses and other current assets	2,285	1,874
Deferred income taxes	1,372	2,240
Total current assets	58,125	51,596
Property and equipment, net	8,198	7,897
Intangible assets	35,941	37,297
Goodwill	26,987	25,790
Other non-current assets	530	1,583
Total assets	\$ 129,781	\$ 124,163
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,242	\$ 8,236
Accrued liabilities	8,878	10,470
Deferred revenue	1,962	2,087
Total current liabilities	18,082	20,793
Deferred income taxes	3,236	2,344
Other non-current liabilities	1,051	
Total liabilities	22,369	23,137
Stockholders' equity:		
Common Stock, \$0.001 par value, 120,000,000 shares authorized; shares issued and outstanding 21,636,590 and 21,391,091	136,070	133,071
Accumulated deficit	(28,750)	(31,677)
Accumulated other comprehensive income (loss)	92	(368)
Total stockholders' equity	107,412	101,026

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Total liabilities and stockholders' equity	\$ 129,781	\$ 124,163
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenue	\$ 28,260	\$ 19,966	\$ 55,310	\$ 39,349
Cost of revenue	10,151	7,216	20,326	14,509
Gross profit	18,109	12,750	34,984	24,840
Operating expenses:				
Marketing and selling	6,900	4,993	13,396	10,156
Research and development	4,372	2,459	8,196	4,949
General and administrative	3,589	2,779	7,697	4,933
Acquired in-process research and development				5,900
Total operating expenses	14,861	10,231	29,289	25,938
Income (loss) from operations	3,248	2,519	5,695	(1,098)
Other income (expense), net	234	(18)	475	(131)
Income (loss) before provision for income tax	3,482	2,501	6,170	(1,229)
Provision for income tax	1,156	1,130	2,325	2,079
Net income (loss)	\$ 2,326	\$ 1,371	\$ 3,845	\$ (3,308)
Earnings (loss) per share:				
Basic	\$ 0.11	\$ 0.07	\$ 0.18	\$ (0.18)
Diluted	\$ 0.10	\$ 0.07	\$ 0.17	\$ (0.18)
Weighted average shares used in the calculation of net income (loss) per share:				
Basic	21,584	18,597	21,525	18,541
Diluted	22,830	19,923	22,783	18,541

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

Table of Contents**NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(in thousands)

	Six Months Ended June 30,	
	2007	2006
Operating activities:		
Net income (loss)	\$ 3,845	\$ (3,308)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Acquired in-process research and development		5,900
Depreciation and amortization	2,185	2,003
Accounts receivable reserves	82	60
Inventory reserves	323	160
Warranty reserves	126	300
Share-based compensation	790	546
Excess tax benefits on the exercise of options	(884)	(685)
Changes in operating assets and liabilities:		
Accounts receivable	(2,055)	275
Inventories	(2,375)	(2,779)
Prepaid expenses and other current assets	640	284
Accounts payable	(994)	110
Accrued liabilities and deferred revenue	(68)	(2,339)
Net cash provided by operating activities	1,615	527
Investing activities:		
Acquisition of property and equipment	(1,132)	(1,570)
Acquisition of business, net of cash acquired	(192)	(51,380)
Deposits and other assets		525
Purchase of short-term investments	(518)	
Sales of short-term investments		12,165
Net cash used in investing activities	(1,842)	(40,260)
Financing activities:		
Proceeds from stock option exercises and ESPP	1,325	1,040
Excess tax benefits upon the exercise of options	884	685
Borrowing on credit facility		10,000
Payments on borrowings		(2,250)
Net cash provided by financing activities	2,209	9,475
Exchange rate effect on cash and cash equivalents	460	(295)
Net increase (decrease) in cash and cash equivalents	2,442	(30,553)
Cash and cash equivalents, beginning of period	15,392	40,046
Cash and cash equivalents, end of period	\$ 17,834	\$ 9,493

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$	\$	339
Cash paid for income taxes	\$	1,285	\$ 410

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

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Table of Contents**NATUS MEDICAL INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****1- Basis of Presentation**

The accompanying interim condensed consolidated financial statements of Natus Medical Incorporated (Natus, we, us, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Except as updated below, the accounting policies followed in the preparation of the interim condensed consolidated financial statements are consistent in all material respects with those presented in Note 1 to the consolidated financial statements included in the Company 's Annual Report on Form 10-K for the year ended December 31, 2006.

Interim financial reports are prepared in accordance with the rules and regulations of the Securities and Exchange Commission, accordingly they do not include all of the information and notes required by GAAP for annual financial statements. The interim financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary for the fair presentation of our financial position, results of operations, and cash flows for the interim periods presented. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. A reclassification has been made to the prior period condensed consolidated statement of cash flows to properly reflect the impact on cash flows from operating activities and financing activities of excess tax benefits on the exercise of options.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; intercompany transactions have been eliminated in consolidation.

Comprehensive Income

The following are the components of comprehensive income (loss) (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	\$ 2,326	\$ 1,371	\$ 3,845	\$ (3,308)
Foreign currency translation adjustment	714	(142)	460	(295)
Comprehensive income (loss)	\$ 3,040	\$ 1,229	\$ 4,305	\$ (3,603)

Stockholders' Equity

The following are the changes in stockholders' equity (in thousands):

ing expenses, net for the fourth quarter 2013 decreased 28.6% to NIS 30 million (\$9 million), compared to NIS 42 million (\$12 million) of last year. The decrease resulted mainly from a decrease in loss from hedging transactions and a decrease in interest expenses, associated with the company's debentures, due to a lower debt level. The decrease in financing expenses, net, also resulted from one-time positive effects in the amount of approximately NIS 15 million. The decrease in financing expenses, net, was partially offset by a decrease in CPI linkage income associated with the company's debentures, due to lower deflation rate in the fourth quarter of 2013, compared with the fourth quarter of 2012, and a decrease in interest expenses in the local currency.

ding amortization expenses related to intangible assets attributable to the acquisition of Netvision.

ge differences related to trade payables due to lower appreciation of the NIS against the US dollar in the fourth quarter of 2013, compared to the fourth quarter of 2012.

Income tax for 2013 decreased 40% to NIS 117 million (\$34 million) from NIS 195 million (\$56 million) in 2012. The decrease in income tax expense was primarily due to a 44.2% decrease in income before income tax, primarily attributable to the adverse effect of the intensified competition in the cellular market on the Company's results.

Operating income for 2013 decreased 45.8% to NIS 288 million (\$83 million) from NIS 531 million (\$153 million) in 2012. Netvision's contribution to operating income decreased from NIS 67 million (\$19 million) in 2012 to NIS 78 million (\$22 million) in 2013. Net income for the fourth quarter 2013 decreased to NIS 29 million (\$9 million) from NIS 113 million (\$33 million) in the fourth quarter of 2012. Netvision's contribution to net income for the fourth quarter increased to NIS 34 million (\$10 million) from NIS 24 million (\$7 million) in the fourth quarter of 2012.

Adjusted earnings per share for 2013 totaled NIS 2.89 (\$0.83), compared to NIS 5.34 (\$1.54) in 2012. Basic earnings per share for the fourth quarter 2013 totaled NIS 0.29 (\$0.09), compared to NIS 1.14 (\$0.33) in the fourth quarter of last year.

Operating Review (data refers to cellular subscribers only)

Cellular subscriber base – at the end of 2013 the Company had approximately 3.092 million cellular subscribers. During the fourth quarter 2013, the Company removed approximately 64,000 pre-paid subscribers from its cellular subscriber base, following a change to its subscribers counting policy to which the Company adds prepaid subscribers to its subscribers base only upon charging a prepaid card and removes them from its subscriber base after six months of no revenue generating calls or SMS. After elimination of this removal, during 2013 the Company's cellular subscriber base increased by approximately 43,000 net cellular subscribers, and in the fourth quarter of 2013, it did not change.

Cellular Churn Rate for 2013 totaled 36.8%, compared to 31.5% in 2012. The churn rate for the fourth quarter 2013 totaled to 9.9%, compared to 9.9% in the fourth quarter last year. Both annual and quarterly churn rates were primarily affected by the intensified competition in the cellular market. Netvision's quarterly churn rates include the above mentioned removal of pre-paid subscribers.

Monthly cellular Average Revenue per User (ARPU) for 2013 totaled NIS 78.5 (\$22.6), compared to NIS 87.5 (\$25.2) in 2012. ARPU for the fourth quarter 2013 totaled NIS 78.7 (\$22.7), compared to NIS 82.4 (\$23.7) in the fourth quarter last year. Both annual and quarterly figures were

including amortization expenses related to intangible assets attributable to the acquisition of Netvision.

ed, among others, by the ongoing erosion in the price of cellular services, resulting from the intensified competition in the cellular market.

Operating and Investment Review

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Cash flow for 2013 increased by 7.1% to NIS 1,210 million (\$349 million), compared to NIS 1,130 million (\$326 million) in 2012. Free cash flow for the fourth quarter of 2013 increased by 6.9% totaling NIS 308 million (\$89 million), compared to NIS 288 million (\$83 million) generated in the fourth quarter of 2012. Cash flows from operating activities for 2013 decreased 5.2% from NIS 1,641 million (\$473 million) in 2012 to NIS 1,556 million (\$443 million) in 2013, primarily due to a decrease in proceeds from customers following the decrease in service revenues in 2013 compared with 2012, resulting from the decrease in sales of cellular services. The decrease in proceeds from customers was partially offset by a decrease in payments to vendors for handset purchases, an increase in sales of such handsets and a decrease in operating expenses mainly as a result of efficiency measures implemented by the Company. Cash flows used in investing activities decreased 51.4% from NIS 700 million (\$197 million) in 2012 to NIS 344 million (\$99 million) in 2013, primarily due to a decrease in acquisition of fixed assets and a decrease in investments in 2013 compared with 2012.

Equity

Equity as of December 31, 2013 amounted to NIS 710 million (\$205 million), primarily consisting of accumulated undistributed retained earnings and other equity components of the Company.

Investment in Fixed Assets and Intangible Assets

During 2013 and the fourth quarter 2013, the Company invested NIS 384 million (\$111 million) and NIS 151 million (\$44 million), respectively, in fixed and intangible assets (including, among others, rights of use of communication lines and investments in information systems and software). During 2012 and the fourth quarter 2012, the Company invested NIS 537 million (\$155 million) and NIS 140 million (\$40 million) in 2012 and the fourth quarter 2012, respectively.

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On March 5, 2014, the Company's board of directors decided not to declare a cash dividend for the fourth quarter of 2013. 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 intense competitive environment and the potential for an adverse effect on the Company's results of operations, and in order to strengthen the Company's balance sheet. The board of directors expects to make a dividend declaration in future quarters. No future dividend declaration is guaranteed and is subject to the Company's board of directors' sole discretion. For more information, please refer to the Company's annual report for the year ended December 31, 2013 on Form 20-F, under "Item 8 - Financial Information - A. Consolidated Financial Information - Dividend Policy".

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For more information regarding the Company's summary of financial liabilities and details regarding the Company's outstanding debentures as of March 31, 2014, please refer to the "Disclosure for Debenture Holders" section in this press release.

Conference Call Details

The Company will be hosting a conference call on Thursday, March 6, 2014 at 10:00 am EST, 07:00 am PST, 15:00 GMT, 17:00 Israel time. The 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 call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

Toll-free Dial-in Number: 1 888 668 9141

UK Dial-in Number: 0 800 917 5108

Toll-free Dial-in Number: 03 918 0610

International Dial-in Number: +972 3 918 0610

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

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

Annual Report for 2013

The Company will be filing its annual report for the year ended December 31, 2013 (on Form 20-F) with the US Securities and Exchange Commission on March 6, 2014. The annual report will be available for download from the investor relations section of Cellcom Israel's website, www.cellcom.co.il. The Company will furnish a hard copy to any shareholder who so requests, without charge. Such requests may be sent through the Company's website or by email request to Cellcom Israel Ltd., 10 Hagavish Street, Netanya, Israel (attention: Chief Financial Officer).

Cellcom Israel

Cellcom Israel Ltd., established in 1994, is the largest Israeli cellular provider; Cellcom Israel provides its approximately 3.092 million subscribers (as of December 31, 2013) with a broad range of value added services including cellular and landline telephony, roaming services for tourists in Israel and abroad and additional services in the areas of music, video, mobile office etc., based on Cellcom Israel's technologically advanced network. Cellcom Israel operates an HSPA 3.5 Generation network enabling advanced high speed broadband multimedia services, in addition to GSM and GPRS services. Cellcom Israel offers Israel's broadest and largest customer service infrastructure including telephone customer service centers, retail and sales centers, distributed nationwide. Through its broad customer service network Cellcom Israel offers technical support, account management, to the door parcel delivery services, internet and fax services, dedicated centers for hearing impaired, etc. Cellcom Israel further provides through its wholly owned subsidiaries internet connectivity services and international calling services, as well as landline telephone communication services and data communication services. Cellcom Israel's shares are traded both on the New York Stock Exchange (CEL) and the Tel Aviv Stock Exchange. For additional information please visit the Company's website www.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," "could," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of these terms and other comparable terms. Forward-looking statements, which are subject to risks, uncertainties and assumptions about the Company, may include projections of the Company's 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 regulations, changes in the market or affecting the Company's operations, new competition and changes in the competitive environment, the outcome of legal proceedings in 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 factors. For more information on the risks and uncertainties detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission, including under "Risk Factors" in its Annual Report for the year ended December 31, 2013.

Although the Company believes the expectations reflected in the forward-looking statements contained herein are reasonable, it cannot guarantee the accuracy of these statements, level of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. The Company assumes no duty to update any of these forward-looking statements 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 the exchange rate based on the New Israeli Shekel (NIS)/US\$ exchange rate of NIS 3.471 = US\$ 1 as published by the Bank of Israel for December 31, 2013.

non-IFRS financial measures

EBITDA is a non-IFRS measure and is defined as income before financing income (expenses), net; other income (expenses), net; income tax expense; amortization and share based payments. This is an accepted measure in the communications industry. The Company presents this non-IFRS performance measure as the Company believes that it enables us to compare operating performance between periods and companies. EBITDA is not a measure of performance and should not be used to evaluate performance, as it does not take into account capital 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, including capital expenditures, and therefore, does not necessarily indicate the amounts that may be available for the Company. 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 presentation.

Free cash flow is a non-IFRS measure and is defined as the net cash provided by operating activities minus the net cash used in investing activities, including term investment in tradable debentures and deposits and proceeds from sales of such debentures (including interest received in connection with such debentures) and deposits. See "Reconciliation of Non-IFRS Measures" below.

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Financial Tables Follow

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Statements of Financial Position

	December 31, 2012 NIS millions	December 31, 2013 NIS millions
and cash equivalents	1,414	1,057
nt investments, including derivatives	493	513
receivables	1,856	1,731
receivables	67	63
ory	112	84
Current assets	3,942	3,448
and other receivables	1,219	854
ty, plant and equipment, net	2,077	1,865
ble assets, net	1,515	1,390
ed tax assets	34	22
Non-current assets	4,845	4,131
Assets	8,787	7,579
Liabilities		
nt maturities of debentures and long term loans and short term credit	1,129	1,100
payables and accrued expenses	827	582
t tax liabilities	87	99
ons	175	187
payables, including derivatives	492	398
Current liabilities	2,710	2,366
term loans from banks	10	5
tures	5,368	4,332
ons	21	21
ong-term liabilities	21	10
ty for employee rights upon retirement, net	12	13
ed tax liabilities	145	122
Non-current liabilities	5,577	4,503
Liabilities	8,287	6,869

attributable to owners of the Company		
capital	1	1
low hedge reserve	(12)	(13)
ed earnings	509	719
controlling interest	2	3
equity	500	710
liabilities and equity	8,787	7,579

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Statements of Income

	Year ended December 31, 2011 NIS millions	Year ended December 31, 2012 NIS millions	Year ended December 31, 2013 NIS millions
Revenues	6,506	5,938	4,927
Operating expenses	(3,408)	(3,463)	(2,990)
Operating profit	3,098	2,475	1,937
Research and marketing expenses	(990)	(865)	(717)
General and administrative expenses	(685)	(629)	(570)
Operating income (expenses), net	(1)	4	1
Non-operating profit	1,422	985	651
Non-operating income	116	181	156
Non-operating expenses	(409)	(440)	(402)
Non-operating income (expenses), net	(293)	(259)	(246)
Income before taxes on income	1,129	726	405
Income tax expense	(304)	(195)	(117)
Income for the year	825	531	288
Income attributable to:			
Common stockholders of the Company	824	530	287
Non-controlling interests	1	1	1
Income for the year	825	531	288
Earnings per share			
Basic earnings per share (in NIS)	8.28	5.34	2.89
Diluted earnings per share (in NIS)	8.28	5.33	2.86

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Statements of Cash Flows

	Year ended December 31, 2011 NIS millions	Year ended December 31, 2012 NIS millions	Year ended December 31, 2013 NIS millions
Cash flows from operating activities			
For the year	825	531	288
Adjustments for:			
Depreciation and amortization	738	765	676
Share-based payment	6	7	9
Gain on sale of property, plant and equipment	-	2	2
Gain on sale of shares in an associate	-	(6)	-
Income tax expense	304	195	117
Financing expenses, net	293	259	246
Other expenses (income)	2	2	(3)
Changes in operating assets and liabilities:			
Change in inventory	(67)	52	27
Change in trade receivables (including long-term amounts)	(585)	183	576
Change in other receivables (including long-term amounts)	61	6	(34)
Change in trade payables, accrued expenses and provisions	146	(89)	(185)
Change in other liabilities (including long-term amounts)	(52)	(92)	(33)
Changes from (payments for) derivative hedging contracts, net	(14)	20	(17)
Income tax paid	(325)	(209)	(119)
Income tax received	-	15	6
Cash from operating activities	1,332	1,641	1,556
Cash flows from investing activities			
Acquisition of property, plant, and equipment	(333)	(457)	(275)
Acquisition of intangible assets	(99)	(97)	(90)
Dividends received	-	-	1
Acquisition of subsidiary, net of cash acquired	(1,458)	-	-
Change in current investments, net	197	(212)	(16)
Changes from (payments for) other derivative contracts, net	1	9	(10)
Dividends from sale of property, plant and equipment	3	7	17
Dividends received	33	35	29
Dividends from sale of shares in a consolidated company	-	7	-
Cash used in investing activities	(1,656)	(708)	(344)

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Statements of Cash Flows (cont.)

	Year ended December 31, 2011 NIS millions	Year ended December 31, 2012 NIS millions	Year ended December 31, 2013 NIS millions
Cash flows from financing activities			
Proceeds from (payments for) derivative contracts, net	11	(12)	(8)
Repayment of long term loans from banks	(4)	(16)	(6)
Repayment of debentures	(354)	(660)	(1,124)
Proceeds from issuance of debentures, net of issuance costs	2,165	992	-
Interest paid	(858)	(391)	(81)
Dividend paid	(245)	(352)	(350)
Cash from (used in) financing activities	715	(439)	(1,569)
Balance presented under assets held for sale	(4)	-	-
Changes in cash and cash equivalents	387	494	(357)
Cash and cash equivalents as at the beginning of the year	533	920	1,414
Cash and cash equivalents as at the end of the year	920	1,414	1,057

Cellcom Israel Ltd.
(An Israeli Corporation)

Reconciliation for Non-IFRS Measures

EBITDA

The following is a reconciliation of net income to EBITDA:

	Year ended December 31		
	2011 NIS millions	2012 NIS millions	2013 NIS millions
Net income	825	531	288
Income taxes	304	195	117
Depreciating income	(116)	(181)	(156)
Depreciating expenses	409	440	402
Other expenses (income)	1	(4)	(1)
Depreciation and amortization	738	765	676
Share-based payments	6	7	9
EBITDA	2,167	1,753	1,335

Free cash flow

The following table shows the calculation of free cash flow:

	Year ended December 31		
	2011 NIS millions	2012 NIS millions	2013 NIS millions
Cash flows from operating activities	1,332	1,641	1,556
Cash flows from investing activities	(*) (198)	(708)	(344)
Net Investment in (sale of) tradable debentures	(197)	(**) 197	(**) (2)
Free cash flow	937	1,130	1,210

Net of interest received in relation to tradable debentures.

Cellcom Israel Ltd.
(An Israeli Corporation)

Financial and operating indicators (unaudited)

Millions unless otherwise stated	Q1-2012	Q2-2012	Q3-2012	Q4-2012	Q1-2013	Q2-2013	Q3-2013	Q4-2013	FY-2012
Cellular service revenues	945	942	902	828	758	790	789	774	3,617
Fixed-line service revenues	258	258	276	260	254	246	251	229	1,052
Cellular equipment revenues	382	297	285	310	256	213	205	208	1,274
Fixed-line equipment revenues	17	19	15	31	17	13	6	24	82
Depreciation and amortization	(17)	(18)	(30)	(22)	(27)	(26)	(27)	(26)	(87)
Operating revenues	1,585	1,498	1,448	1,407	1,258	1,236	1,224	1,209	5,938
Operating EBITDA	410	399	355	306	251	271	286	258	1,470
Operating EBITDA	65	75	75	68	63	68	61	77	283
Operating EBITDA	475	474	430	374	314	339	347	335	1,753
Operating profit	275	282	239	189	139	169	173	170	985
Operating expenses, net	36	117	64	42	46	78	92	30	259
Operating profit for the period	173	121	124	113	67	67	52	102	531
Operating cash flow	144	284	414	288	168	345	389	308	1,130
Operating subscribers at end of period (in thousands)	3,362	3,333	3,338	*3,199	3,166	3,151	3,156	**3,092	3,199
Monthly cellular ARPU (NIS)	90.5	90.3	86.7	82.4	75.9	79.7	79.6	78.7	87.5
Operating rate for cellular subscribers (%)	6.3%	8.1%	8.6%	8.7%	9.4%	9.0%	8.9%	9.9%	31.5%

removal of approximately 138,000 data applications subscribers (M2M) from the Company's cellular subscriber base following a change in subscribers counting mechanism.

removal of approximately 64,000 pre-paid subscribers from the Company's cellular subscriber base following a change to the subscriber counting mechanism.

Cellcom Israel Ltd.

sure for debenture holders as of December 31, 2013

igation of the information regarding the debenture series issued by the company (1), in million NIS

Original Issuance Date	Principal on the Date of Issuance	As of 31.12.2013					As of 05.03.14		Interest Rate(fixed)	Principal Repaid (3)
		Principal Balance on Trade	Linked Principal Balance	Interest Accumulated in Books	Debenture Balance in Books(2)	Market Value	Principal Balance on Trade	Linked Principal Balance		
22/12/05										
02/01/06*										
05/01/06*										
10/01/06*										
31/05/06*	925.102	740.082	892.446	46.652	939.098	732.292	555.061	666.060	5.30%	05.0
07/10/07										
03/02/08*										
06/04/09*										
30/03/11*										
18/08/11*	2,423.075	1,938.460	2,280.696	59.346	2,340.042	2,554.891	1,938.460	2,269.538	5.19%	01.0
06/04/09										
30/03/11*										
18/08/11*	1,798.962	1,199.308	1,199.308	73.930	1,273.238	968.562	899.481	899.481	6.25%	05.0
(6) 20/03/12	714.802	714.802	738.956	16.670	755.626	843.824	714.802	735.342	4.60%	05.0

5)(6)

20/03/12	285.198	285.198	285.198	9.776	294.974	326.552	285.198	285.198	6.99%	05.0
	6,147.139	4,877.850	5,396.604	206.374	5,602.978	5,426.121	4,393.002	4,855.619		

ents:

the reported period, the company fulfilled all terms of the debentures. The company also fulfilled all terms of the Indentures. Debenture covenants - as of December 31, 2013 the net leverage (net debt to EBITDA ratio- see definition in the Company's annual report for the year ended December 31, 2013 on Form 20-F, under "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Debt") was 2.9. In the reported period, no cause for early repayment occurred. (2) Including interest accumulated in the books and excluded from the calculation of EBITDA, net debt to EBITDA ratio (including interest on debentures and deferred issuance expenses. (3) Annual payments, excluding series F and G debentures in which the payments are in arrears. (4) Regarding Debenture series B, F and G- the company undertook not to create any pledge on its assets, as long as debentures are not fully repaid. (5) Regarding Debenture series F and G - the company has the right for early redemption under certain terms (see the Company's annual report for the year ended December 31, 2013 on Form 20-F, under "Item 5. Operating and Financial Review and Prospects– B. Liquidity and Capital Resources – Debt Service – Shelf prospectus").(6) Regarding Debenture series F and G - in June 2013, following a second decrease of the Company's stock price since their issuance, the annual interest rate has been increased by 0.25% to 4.60% and 6.99%, respectively, beginning July 5, 2013. (7) On December 31, 2013, the company repaid principal payments of approximately NIS 223 million of series B debentures and approximately NIS 300 million of series

these dates additional debentures of the series were issued, the information in the table refers to the full series. Series B, D, E and F are material, which represent 5% or more of the total liabilities of the Company, as presented in the financial statements.

Cellcom Israel Ltd.

sure for debenture holders as of December 31, 2013 (cont.)

ures Rating Details*

Rating Company	Rating as of 31.12.2013 (1)	Rating as of 05.03.2014	Rating assigned upon issuance of the Series	Recent date of rating as of 05.03.2014	Additional ratings between original issuance and the recent date of rating as of 05.03.2014 (2)	Rating
S&P Maalot	A+	A+	AA-	6/2013	5/2006, 9/2007, 1/2008, 10/2008, 3/2009, 9/2010, 8/2011, 1/2012, 3/2012, 5/2012, 11/2012, 6/2013	AA-, AA,AA-,A+ (2)
S&P Maalot	A+	A+	AA-	6/2013	1/2008, 10/2008, 3/2009, 9/2010, 8/2011, 1/2012, 3/2012, 5/2012, 11/2012, 6/2013	AA-, AA,AA-,A+ (2)
S&P Maalot	A+	A+	AA	6/2013	9/2010, 8/2011, 1/2012, 3/2012, 5/2012, 11/2012, 6/2013	AA,AA-,A+ (2)
S&P Maalot	A+	A+	AA	6/2013	5/2012, 11/2012, 6/2013	AA,AA-,A+ (2)
S&P Maalot	A+	A+	AA	6/2013	5/2012, 11/2012, 6/2013	AA,AA-,A+ (2)

(1)

In June 2013, S&P Maalot updated the Company's rating from an "ilAA-/negative" to an "ilA+/stable".

September 2007, S&P Maalot issued a notice that the AA- rating for debentures issued by the Company was in the process of recheck with stable implications (Credit Watch Positive). In October 2008, S&P Maalot issued a notice that the AA- rating for debentures issued by the Company was in the process of recheck with stable implications (Credit Watch Stable). This process was withdrawn upon assignment of AA rating in March 2009. In May 2011, S&P Maalot issued a notice that the AA rating for debentures issued by the Company is in the process of recheck with negative implications (Credit Watch Negative). In May 2012, S&P Maalot updated the Company's rating from an "ilAA/negative" to an "ilAA-/negative". In November 2012, S&P Maalot affirmed the Company's rating of "ilAA-/negative". In June 2013, S&P Maalot updated the Company's rating from an "ilAA-/negative" to an "ilAA+/stable". For details regarding the rating of the debentures see the S&P Maalot report dated June 20, 2013.

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

Cellcom Israel Ltd.

Summary of Financial Undertakings (according to repayment dates) as of December 31, 2013

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

	Principal payments				Gross interest payments (without deduction of tax)
	ILS linked to CPI	ILS not linked to CPI	Euro	Dollar	
Year	758,591	294,284	-	-	284,838
12 month period	758,591	294,284	-	-	226,838
Year	758,591	294,284	-	-	168,839
Year	830,330	351,052	-	-	107,206
Year and on	645,655	227,072	-	-	58,438
	3,751,758	1,460,975	-	-	846,159

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

c. Credit from banks in Israel based on the Company's "solo" financial data (in thousand NIS) - None

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

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

	Principal payments				Gross interest payments (without deduction of tax)
	ILS linked to CPI	ILS not linked to CPI	Euro	Dollar	
Year	758,591	294,284	-	-	284,838
12 month period	758,591	294,284	-	-	226,838
Year	758,591	294,284	-	-	168,839
Year	830,330	351,052	-	-	107,206
Year and on	645,655	227,072	-	-	58,438
	3,751,758	1,460,975	-	-	846,159

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

Total of the balance sheet Credit exposure of all the Company's consolidated companies, excluding companies that are reporting corporation financial data presented in section f above (in thousand NIS) - None

Total balances of the credit from banks, non-bank credit and debentures of all the consolidated companies, excluding companies that are reporting corporation financial data presented in sections a - d above (in thousand NIS).

Cellcom Israel Ltd.

Summary of Financial Undertakings (according to repayment dates) as of December 31, 2013 (cont.)

	Principal payments					Gross interest payments (without deduction of tax)
	ILS linked to CPI	ILS not linked to CPI	Euro	Dollar	Other	
Year	-	7,330	-	-	-	720
12 months period year	-	5,000	-	-	-	300
6 months period year	-	-	-	-	-	-
3 months period year	-	-	-	-	-	-
Year and on	-	-	-	-	-	-
	-	12,330	-	-	-	1,020

Summary of balances of credit granted to the Company by the parent company or a controlling shareholder and balances of debentures offered by the parent company or the controlling shareholder (in thousand NIS).

	Principal payments					Gross interest payments (without deduction of tax)
	ILS linked to CPI	ILS not linked to CPI	Euro	Dollar	Other	
Year	29	12	-	-	-	9
12 months period year	29	12	-	-	-	7
6 months period year	29	12	-	-	-	4
3 months period year	29	12	-	-	-	2
Year and on	-	-	-	-	-	-
	115	46	-	-	-	22

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

	Principal payments					Gross interest payments (without deduction of tax)
	ILS linked to CPI	ILS not linked to CPI	Euro	Dollar	Other	
Year	34,666	5,532	-	-	-	9,705
12 months period year	34,666	5,532	-	-	-	7,551
6 months period year	34,666	5,532	-	-	-	5,396
3 months period year	36,822	5,803	-	-	-	3,182
Year and on	19,406	1,086	-	-	-	1,405

160,227	23,485	-	-	-	27,240
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Cellcom Israel Ltd.

ary of Financial Undertakings (according to repayment dates) as of December 31, 2013 (cont.)

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

ures

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

CELLCOM ISRAEL LTD.

March 6, 2014

By: /s/ Liat Menahemi Stadler
Name: Liat Menahemi Stadler
Title: General Counsel