

Cellcom Israel Ltd.
Form 6-K
November 10, 2008

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 November 10, 2008

Commission File Number: 001-33271

CELLCOM ISRAEL LTD.

10 Hagavish Street
Netanya, Israel 42140

(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 <input checked="" type="checkbox"/> | Form |
| 20-F | 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

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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 2. Financial Statements, as at September 30, 2008.
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CELLCOM ISRAEL ANNOUNCES

THIRD QUARTER 2008 RESULTS

Cellcom Israel Continues to Present Record Results in Terms of
total Revenues, EBITDA and Operating Income:

These record results were achieved despite the ongoing price erosion and the intense market competition;

Revenues increased 5.0%; EBITDA¹ up by 12.9%
Cellcom Israel declares a third quarter dividend of NIS 3.07 per share (totals
approx. NIS 3002 million)

Third Quarter 2008 Highlights (results compared to third quarter 2007, unless otherwise stated):

§ Total Revenues (including revenues from equipment sales) increased 5.0% to NIS 1,650 million (\$482 million)

§ Total Revenues from services increased 4.3% to NIS 1,480 million (\$433 million)

§ Revenues from content and value added services (including SMS) increased 31.1%, reaching 11.7% of services revenues

§ EBITDA increased 12.9% to NIS 630 million (\$184 million)

§ EBITDA margin reached 38.2%, up from 35.5%

§ Operating income increased 21.2% to NIS 440 million (\$129 million)

§ Financing expenses, net increased 53.5% to NIS 109 million (\$32 million)

§ Net income totaled NIS 239 million (\$70 million), a 20.1% increase compared to net income for the third quarter 2007 after elimination of the one-time tax provision release of NIS 72 million

§ Free Cash Flow increased 22.0% to NIS 482 million (\$141 million)

§ The Company's subscriber base increased by approx. 40,000, all Post-paid subscribers; Total subscriber base reached approx. 3,157 million at the end of September 2008

§ 3G subscribers reached approx. 679,000 at the end of September 2008, net addition of approx. 71,000

§ The Company declared a third quarter dividend of NIS 3.07 per share

1 Please view "Use of Non-GAAP financial measures" section at the end of this press release.

²Based on the number of issued shares as at November 10, 2008. Should all share-based options vested on the record date, be exercised before the record date, total dividend amount will increase to approximately NIS 302 million.

Netanya, Israel – November 10, 2008 – Cellcom Israel Ltd. (NYSE: CEL TASE: CEL) ("Cellcom Israel", the "Company"), announced today its financial results for the third quarter of 2008. Revenues for the third quarter 2008 totaled NIS 1,650 million (\$482 million); EBITDA for the third quarter 2008 totaled NIS 630 million (\$184 million), or 38.2% of revenues; and net income for the third quarter 2008 totaled NIS 239 million (\$70 million). Basic earnings per share for the third quarter 2008 reached NIS 2.45 (\$0.72).

Amos Shapira, Chief Executive Officer, commented on the results saying: "I am pleased to present another record quarter for Cellcom Israel, especially significant given our tough business environment. Our strong performance this quarter attests, once again, to our ability to innovate, while preserving high profitability and efficiency measures, driven by the dedication of our management and employees throughout the country. This quarter we continued to present revenue growth, which was reflected by an increase of 5% in total revenues and a further increase of 31% in revenues from content and value added services. In terms of expanding our offering to landline services, this quarter we continued to see an impressive increase in our landline services revenue, which also contributed to our overall growth. The increase in revenues resulted, among other things, from our ability to draw new subscribers and to improve the composition of our subscriber base. This quarter we recruited approximately 40,000 net new subscribers, all of which are post-paid subscribers. Furthermore, our strong brand and advanced technological network continues to draw 3G subscribers, and we recruited approximately 71,000 new 3G subscribers this quarter, reaching a total 3G subscriber base of approximately 679,000. These higher ARPU generating customers helped drive the strong revenue increase this quarter."

Tal Raz, Chief Financial Officer, commented: "This was another record quarter for the Company. Our improved profitability was driven both by our healthy revenue growth as well as our continued quest to keep a tight rein on expenses. The latter enabled us to further reduce our operating expenses this quarter, as a percent of revenues, to 21.3%, compared to 22.9% in the third quarter last year. Net income for the quarter (after elimination of the one-time tax provision release of NIS 72 million in the third quarter of 2007) was up 20.1%, in line with our steady growth trend of recent quarters. Furthermore, on the cash generation front, we continue to generate a strong free cash flow, surpassing NIS 480 million this quarter, up 22% from last year. This healthy cash generation enables us once again to distribute a dividend, sharing the Company's performance with our shareholders."

Main Financial and Performance Indicators:

| | Q3/2008 | Q3/2007 | % Change | Q3/2008 | Q3/2007 |
|---|-------------|---------|----------|---|---------|
| | million NIS | | | million US\$ (convenience translation) | |
| Total services revenues | 1,480 | 1,419 | 4.3% | 432.6 | 414.8 |
| Revenues from content and value added services | 173 | 132 | 31.1% | 50.6 | 38.6 |
| Handset and accessories revenues | 170 | 153 | 11.1% | 49.7 | 44.7 |
| Total revenues | 1,650 | 1,572 | 5.0% | 482.3 | 459.5 |
| Operating Profit | 440 | 363 | 21.2% | 128.6 | 106.1 |
| Net Income (after elimination of the one-time tax provision release in Q3/2007) * | 239 | 199 | 20.1% | 69.9 | 58.2 |
| Cash Flow from Operating Activities, net of Investing Activities | 482 | 395 | 22.0% | 140.9 | 115.5 |
| EBITDA | 630 | 558 | 12.9% | 184.2 | 163.1 |
| EBITDA, as percent of Revenues | 38.2% | 35.5% | 7.6% | | |
| Subscribers end of period (in thousands) | 3,157 | 3,017 | 4.6% | | |
| Estimated Market Share ³ | 34.8% | 34.4% | 1.1% | | |
| Average Monthly MOU (in minutes) | 357.4 | 353.7 | 1.0% | | |
| Monthly ARPU | 154.3 | 155.5 | -0.8% | 45.1 | 45.5 |

*Net income, without elimination of the one-time tax provision release in the third quarter of 2007, decreased by 11.8%, from NIS 271 million (\$79 million) in the third quarter of 2007 to NIS 239 million (\$70 million) in the third quarter this year.

Financial Review

Revenues for the third quarter of 2008 totaled NIS 1,650 million (\$482 million), a 5.0% increase compared to NIS 1,572 million (\$460 million) in the third quarter last year. The increase in revenues resulted from a 4.3% increase in revenues from services, reaching NIS 1,480 million (\$433 million) compared to NIS 1,419 million (\$415 million) in the third quarter last year, as well as from an 11.1% increase in handset and accessories' revenues from NIS 153 million (\$45 million) in the third quarter last year, to NIS 170 million (\$50 million) in the third quarter 2008. The increase in revenues from services is attributed mainly to a 31.1% increase in revenues from content and value added services (including SMS) in the third quarter 2008, compared to the third quarter last year, reaching NIS 173 million (\$51 million), or 11.7% of revenues from services. The increase also resulted from an increase in roaming services and landline services. The increase in revenues from services was partially offset by an additional reduction in the interconnect tariffs, which came into effect on March 1, 2008 and the ongoing erosion in airtime prices. The increase in handset and accessories' revenues in the third quarter of 2008 resulted primarily from a larger number of handsets sold as well as a different mix of handsets sold in the third quarter of 2008, which included more of advanced 3G handsets, resulted in an increase in the average handset sale price.

3 The Company's market share was calculated based on the subscribers' figures as of September 30, 2008, published by the Company and Partner Communications Ltd. ("Partner"). The Company estimated the number of subscribers for that date, of two additional Israeli cellular operators - Pelephone Communications Ltd. ("Pelephone") and Mirs Communications Ltd. ("Mirs"), since Pelephone has not yet published this information, and Mirs does not publish this information.

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Cost of revenues for the third quarter of 2008 totaled NIS 856 million (\$250 million), compared to NIS 847 million (\$248 million) in the third quarter last year, an increase of 1.1%. The increase primarily resulted from an increase in handset costs following the higher number of handsets sold during the third quarter of the year as well as an increase in interconnect expenses. The increase was partially offset by a decrease in depreciation expenses and in royalties paid to the Ministry of Communications resulting from a decline in the royalties' rate.

Gross profit for the third quarter of 2008 totaled NIS 794 million (\$232 million), a 9.5% increase compared to NIS 725 million (\$212 million) in the third quarter of 2007. Gross margin for the third quarter of 2008 increased to 48.1%, up from the 46.1% gross margin in the third quarter last year mainly as a result of efficiency measures taken by the company in the areas of service and repair processes.

Selling, Marketing, General and Administrative Expenses ("SG&A Expenses") for the third quarter of 2008 decreased 2.2% and totaled NIS 352 million (\$104 million), or 21.3% of total revenues, compared to NIS 360 million (\$105 million), or 22.9% of total revenues, in the third quarter of 2007. The decrease in SG&A Expenses primarily resulted from some reduction in most expenses items, which was partially offset by an increase in allowance for doubtful accounts.

Operating income for the third quarter of 2008 increased 21.2%, reaching NIS 440 million (\$129 million), compared to NIS 363 million (\$106 million) in the third quarter last year. The increase in operating income, as well as in EBITDA, reflects the lower increase in cost of revenues than the increase in revenues, and the steady decline in SG&A Expenses, both in NIS terms as well as in percent of revenues. The ongoing improvement in operating income also reflects the efficiencies implemented throughout the Company over the last three years.

EBITDA for the third quarter of 2008 increased by 12.9%, reaching NIS 630 million (\$184 million), compared to NIS 558 million (\$163 million) in the third quarter of 2007. EBITDA as a percent of revenues, reached 38.2%, up from the 35.5% in the third quarter last year.

Financing Expenses, net for the third quarter of 2008 totaled NIS 109 million (\$32 million), compared to NIS 71 million (\$21 million) in the third quarter last year. The increase resulted mainly from the increase in our debt level in the fourth quarter of 2007 and first quarter of 2008, which led to an increase in interest and linkage expenses to the Israeli Consumer Price Index (CPI), associated with the Company's debentures. On the other hand, the prepayment of the Company's former credit facility in March 2008, led to the lack of interest expenses in the third quarter of 2008 associated with the credit facility, compared to approximately NIS 21 million facility related interest expenses in the third quarter of 2007. Furthermore, the increase in financing expenses was partially offset by gains from hedging transactions after the Company's policy to hedge some of its CPI linked debt.

Net Income for the third quarter of 2008 totaled NIS 239 million (\$70 million), compared to NIS 271 million (\$79 million) in the third quarter last year. Net income for the third quarter last year included a one-time release of a tax provision in the amount of NIS 72 million in the third quarter of 2007. Excluding the one-time tax provision release, net income for the third quarter increased 20.1%, compared to the third quarter last year.

Basic earnings per share for the third quarter of 2008 totaled NIS 2.45 (\$0.72) per share, compared to NIS 2.04 (\$0.60), after elimination of the one-time tax provision release or NIS 2.78 (\$0.81) per share in the third quarter of 2007, without the elimination.

Operating Review

New Subscribers – at the end of September 2008 the Company had approximately 3.157 million subscribers. During the third quarter of 2008 the Company added approximately 40,000 net new subscribers, all of them post-paid subscribers.

In the third quarter of 2008, the Company added approximately 71,000 net new 3G subscribers to its 3G subscriber base, reaching approximately 679,000 3G subscribers at the end of September 2008. These represent 21.5% of the Company's total subscriber base, up from 19.5% in the previous quarter.

The Churn Rate in the third quarter 2008 was 4.4%, which reflects the ongoing decline trend in churn rate following the implementation of number portability in December 2007, compared to 4.7% in the previous quarter and 3.6% in the third quarter last year. As expected and as experienced in other countries, the implementation of number portability has increased the churn rate, which primarily consists of lower contribution pre-paid subscribers and subscribers with collection problems. The increased churn of pre-paid subscribers had a negligible impact on the Company's results.

Total airtime minutes in the third quarter 2008 increased 5.9% compared to the third quarter last year.

Average monthly subscriber Minutes of Use ("MOU") in the third quarter 2008 increased to 357.4 minutes, compared to 353.7 minutes in the third quarter 2007, a 1.0% increase.

The monthly Average Revenue per User (ARPU) for the third quarter 2008 decreased 0.8% and totaled NIS 154.3 (\$45.1), compared to NIS 155.5 (\$45.5) in the third quarter last year.

Financing and Investment Review

Cash Flow

Free cash flow (Cash provided by operating activities, net of cash used in investing activities) for the third quarter of 2008 increased 22%, reaching NIS 482 million (\$141 million), compared to NIS 395~~4~~ million (\$115 million) generated in the third quarter of 2007. The increase is mainly due to the increase in net cash provided by operating activities.

Shareholders' Equity

Shareholders' Equity as of September 30, 2008 amounted to NIS 360 million (\$105 million), primarily consisting of accumulated undistributed retained earnings.

Investment in Fixed Assets and Intangible Assets

During the third quarter 2008, the Company invested NIS 143 million (\$42 million) (on accrued basis, not cash basis) in fixed assets and intangible assets (including, among others, deferred commissions and investments in information systems and software), similar to the third quarter 2007.

Dividend

On November 10, 2008, the Company's board of directors declared a cash dividend in the amount of NIS 3.07 per share, and in the aggregate amount (based on the number of issued shares as at November 10, 2008) of approximately NIS 300 million (the equivalent of approximately \$0.80 per share and approximately \$79 million in the aggregate, based on the representative rate of exchange on November 7, 2008; the actual US\$ amount for dividend paid in US\$ will be converted from NIS based upon the representative rate of exchange published by the Bank of Israel on December 4, 2008), subject to withholding tax described below. Should all share-based options vested on the record date, be exercised before the record date, total dividend amount will increase to approximately NIS 302 million. The dividend will be payable to all of the Company's shareholders of record at the end of the trading day in the NYSE on November 24, 2008. The payment date will be December 8, 2008. According to the Israeli tax law, the Company will deduct at source 20% of the dividend amount payable to each shareholder, as aforesaid, subject to applicable exemptions. The dividend per share that the Company will pay for the third quarter of 2008 does not reflect the level of dividends that will be paid for future quarterly periods, which can change at any time in accordance with the Company's dividend policy. Dividend declaration is not 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, 2007 on Form 20-F, under "Item 8 - Financial Information - Dividend Policy".

4 Restated due to the new presentation of Statements of Cash Flows in accordance with International Financial Reporting Standards (IFRS), following the Company's adoption of IFRS as of January 1, 2008.

Other developments during the third quarter of 2008 and subsequent to balance sheet date

Site Licensing – As previously disclosed, the Company has relied upon an exemption from the requirement to obtain building permits in relation to cellular radio access devices. This exemption has been challenged in court. In October 2008, the State notified the Supreme Court it agrees to the Company and another cellular operator's appeals against a District Court ruling, that the reliance of the Company and other cellular providers in Israel upon the exemption, is invalid. The state requested that a third operator's appeal shall be returned to the District Court for further deliberation on specific questions relating to the validity of the exemption in that case.

The Supreme Court has yet to provide its ruling on the matter.

In November 2008, subsequent to the balance sheet date, the District Court of Central Region, as court of appeals, ruled that the exemption does not apply to radio access devices if on the same rooftop level, exists a residence or other building regularly used by people.

Other appeals regarding the exemption are still under consideration in the District Court as court of appeals.

For additional details see the Company's most recent annual report for the year ended December 31, 2007 on Form 20-F under "Item 3. Key Information – D. Risk Factors – Risks related to our business – We may not be able to obtain permits to construct cell sites" as well as under "Item 4. Information on the Company – B. Business Overview – Government Regulations – Permits for Cell site Construction – Site Licensing" and "Construction and operating permits from the commissioner of environmental radiation" and the Company's immediate reports on Form 6-K filed on May 14, 2008 and August 13, 2008 under "Other Developments Subsequent to Balance Sheet Date – Site Licensing".

Regulation – In October 2008, subsequent to the balance sheet date, the Israeli cellular operators general licenses for the provision of cellular services, including the Company's, were amended, effective December 31, 2008, so as to require the operators to set a fixed tariff in subscribers agreements including a commitment for a predefined period, for the duration of that period. The change applies to non-business subscribers.

For additional details see the Company's most recent annual report for the year ended December 31, 2007 on Form 20-F under "Item 3. Key Information – D. Risk Factors – Risks related to our business – We operate in a heavily regulated industry, which can harm our results of operations".

Conference Call Details

The Company will be hosting a conference call on Monday, November 10, 2008 at 09:00 am EDT, 04:00 pm Israel time, and 02:00 pm UK time. On the call, management will review and discuss the results, and will be available to answer questions. To participate, please either access the live webcast on the Company's website, or call one of the following teleconferencing numbers below. Please begin placing your calls at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1 888 668 9141 UK Dial-in Number: 0 800 404 8418
Israel Dial-in Number: 03 918 0688 International Dial-in Number: +972 3 918 0688
at: 09:00 am Eastern Time; 06:00 am Pacific Time; 2:00 pm UK Time; 4:00 pm Israel Time

To access the live webcast of the conference call, please access the investor relations section of Cellcom Israel's website: <http://investors.ircellcom.co.il/events.cfm>. 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 leading Israeli cellular provider; Cellcom Israel provides its approximately 3,157 million subscribers (as at September 30, 2008) with a broad range of value added services including cellular and landline 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 HSPA 3.5 Generation network enabling the fastest high speed content transmission available in the world, in addition to GSM/GPRS/EDGE and TDMA 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 its customers technical support, account information, direct to the door parcel services, internet and fax services, dedicated centers for the hearing impaired, etc. In April 2006 Cellcom Israel, through Cellcom Fixed Line Communications L.P., a limited partnership wholly-owned by Cellcom Israel, became the first cellular operator to be granted a special general license for the provision of landline telephone communication services in Israel, in addition to data communication 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.ircellcom.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 us, may include projections of our future financial results, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or 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 our license, new legislation or decisions by the regulator affecting our operations, the outcome of legal proceedings to which we are a party, particularly class action lawsuits, our ability to maintain or obtain permits to construct and operate cell sites, and other risks and uncertainties

detailed from time to time in our filings with the U.S. Securities and Exchange Commission, including under the caption "Risk Factors" in our Annual Report for the year ended December 31, 2007.

Although we believe the expectations reflected in the forward-looking statements contained herein are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We assume no duty to update any of these forward-looking statements after the date hereof to conform our 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). Unless noted specifically otherwise, the dollar denominated figures were converted to US\$ using a convenience translation based on the US\$ \ New Israeli Shekel (NIS) conversion rate of NIS 3.421 = US\$1 as published by the Bank of Israel on September 26, 2008.

Use of non-GAAP financial measures

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. 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 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 between the net income and the EBITDA presented at the end of this Press Release.

Free cash flow is a non-GAAP measure and is defined as the net cash provided by operating activities minus the net cash used in investing activities. See the reconciliation note at the end of this Press Release.

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Financial Tables Follow

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Balance Sheets

| | September 30, 2008 NIS millions (Unaudited) | Convenience translation into US dollar September 30, 2008 US\$ millions (Unaudited) | September 30, 2007 NIS millions (Unaudited) | December 31, 2007 NIS millions (Audited) |
|---|--|---|--|---|
| Current assets | | | | |
| Cash and cash equivalents | | 195 | 57 | 522 |
| Trade receivables | | 1,503 | 439 | 1,356 |
| Other receivables, including derivatives | | 131 | 38 | 69 |
| Inventory | | 137 | 40 | 145 |
| Total current assets | | 1,966 | 574 | 2,092 |
| Non-current assets | | | | |
| Long-term receivables | | 610 | 178 | 532 |
| Property, plant and equipment, net | | 2,186 | 639 | 2,322 |
| Intangible assets, net | | 672 | 197 | 657 |
| Total non-current assets | | 3,468 | 1,014 | 3,511 |
| Total assets | | 5,434 | 1,588 | 5,603 |
| Current liabilities | | | | |
| Short-term credit | | 331 | 97 | 238 |
| Trade payables and accrued expenses | | 708 | 207 | 742 |
| Current tax liabilities | | 65 | 19 | 122 |
| Provisions | | 77 | 22 | 82 |
| Other current liabilities, including derivatives | | 319 | 93 | 365 |
| Total current liabilities | | 1,500 | 438 | 1,549 |
| Long-term liabilities | | | | |
| Long-term loans from banks | | - | - | 938 |
| Debentures | | 3,417 | 999 | 2,039 |
| Provisions | | 15 | 5 | 13 |
| Other long term liabilities | | 1 | * - | 3 |
| Deferred taxes | | 141 | 41 | 146 |
| Total non-current liabilities | | 3,574 | 1,045 | 3,139 |
| Total liabilities | | 5,074 | 1,483 | 4,688 |
| Shareholders' equity | | | | |
| Share capital | | 1 | * - | 1 |
| Capital reserves | | (44) | (13) | (23) |
| Retained earnings | | 403 | 118 | 937 |
| Total shareholders' equity | | 360 | 105 | 915 |
| Total liabilities and shareholders' equity | | 5,434 | 1,588 | 5,603 |

* Less than 1 million

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Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Statements of Income

| | Nine- month period ended | | | | Three- month period ended | | Year ended |
|-------------------------------------|--|-------------|--|-------------|---------------------------|-------------|--------------|
| | September 30, | | | | September 30, | | December 31, |
| | Convenience translation into US dollar | | Convenience translation into US dollar | | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS | NIS |
| | millions | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Revenues | 4,845 | 1,416 | 4,466 | 1,650 | 482 | 1,572 | 6,050 |
| Cost of revenues | 2,554 | 746 | 2,417 | 856 | 250 | 847 | 3,377 |
| Gross profit | 2,291 | 670 | 2,049 | 794 | 232 | 725 | 2,673 |
| Selling and marketing expenses | 521 | 152 | 506 | 188 | 54 | 193 | 685 |
| General and administrative expenses | 491 | 144 | 488 | 164 | 48 | 167 | 653 |
| Other (income) expenses, net | (16) | (5) | 2 | 2 | 1 | 2 | 3 |
| Operating income | 1,295 | 379 | 1,053 | 440 | 129 | 363 | 1,332 |
| Financing expenses | (357) | (104) | (191) | (123) | (36) | (97) | (287) |
| Financing income | 94 | 27 | 59 | 14 | 4 | 26 | 140 |
| Financing costs, net | (263) | (77) | (132) | (109) | (32) | (71) | (147) |
| Income before income tax | 1,032 | 302 | 921 | 331 | 97 | 292 | 1,185 |
| Income tax | 290 | 85 | 230 | 92 | 27 | 21 | 310 |
| Net income | 742 | 217 | 691 | 239 | 70 | 271 | 875 |
| Earnings per share | | | | | | | |
| Basic earnings per share (in NIS) | 7.60 | 2.22 | 7.09 | 2.45 | 0.72 | 2.78 | 8.97 |
| Diluted earnings per share (in NIS) | 7.48 | 2.19 | 7.03 | 2.41 | 0.71 | 2.75 | 8.89 |

| | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|
| Weighted average number of shares used in the calculation of basic earnings per share (in thousands) | 97,606 | 97,606 | 97,500 | 97,736 | 97,736 | 97,500 | 97,500 |
| Weighted average number of shares used in the calculation of diluted earnings per share (in thousands) | 99,169 | 99,169 | 98,250 | 99,254 | 99,254 | 98,380 | 98,441 |

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Statements of Cash Flows

| | Nine- month period ended | | Three- month period ended | | Year ended | |
|---|--|-------------|--|-------------|--------------|-----------|
| | September 30, | | September 30, | | December 31, | |
| | Convenience translation into US dollar | | Convenience translation into US dollar | | | |
| | 2008 | 2008 | 2007 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS |
| | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Cash flows from operating activities | | | | | | |
| Net income for the period | 742 | 217 | 691 | 239 | 70 | 875 |
| Adjustments to reconcile net income to funds generated from operations: | | | | | | |
| Depreciation and amortization | 561 | 164 | 575 | 188 | 54 | 775 |
| Reversal of provision allowance | - | - | - | - | - | (10) |
| Loss (gain) on sale of assets | (15) | (5) | 4 | 2 | 1 | 4 |
| Income tax expense | 290 | 85 | 230 | 92 | 27 | 310 |
| Financial costs, net | 263 | 77 | 132 | 109 | 32 | 147 |
| Equity settled share based payments transaction | 20 | 6 | 25 | 3 | 1 | 29 |
| Changes in operating assets and liabilities: | | | | | | |
| Changes in inventories | 94 | 27 | (14) | 12 | 4 | (114) |
| Changes in trade receivables (including long-term amounts) | (163) | (47) | (69) | (50) | (14) | (99) |
| Changes in other receivables and | (44) | (13) | 10 | (2) | (1) | (24) |

| | | | | | | | |
|---|-------|-------|-------|------|------|------|-------|
| debits (including long-term amounts) | | | | | | | |
| Changes in trade payables | (162) | (47) | 30 | 107 | 31 | 38 | 188 |
| Changes in other payables and credits (including long-term amounts) | 64 | 18 | 104 | 29 | 8 | 67 | 92 |
| Payments for inventory hedging contracts, net | (34) | (10) | (18) | (14) | (4) | (2) | (24) |
| Proceeds (payments) for derivative contracts, net | 9 | 3 | (21) | (2) | (1) | (6) | (26) |
| Income tax paid | (355) | (104) | (240) | (95) | (28) | (87) | (313) |
| Net cash provided by operating activities | 1,270 | 371 | 1,439 | 618 | 180 | 543 | 1,810 |

Cellcom Israel Ltd.
(An Israeli Corporation)

Condensed Consolidated Statements of Cash Flows (cont'd)

| | Nine- month period ended | | | Three- month period ended | | Year ended | |
|---|--|-------------|-------------|--|-------------|--------------|-------|
| | September 30, | | | September 30, | | December 31, | |
| | Convenience translation into US dollar | | | Convenience translation into US dollar | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | |
| | NIS | US\$ | NIS | NIS | US\$ | US\$ | |
| | millions | millions | millions | millions | millions | millions | |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | |
| | | | | | | (Audited) | |
| Cash flows from investing activities | | | | | | | |
| Acquisition of property, plant, and equipment | (323) | (94) | (364) | (98) | (29) | (136) | (466) |
| Acquisition of intangible assets | (129) | (38) | (63) | (35) | (10) | (17) | (97) |
| Payments for property, plant and equipment hedging contracts, net | (17) | (5) | (9) | (7) | (2) | (1) | (12) |
| Proceeds from sales of assets | 52 | 16 | 2 | 2 | 1 | 1 | 4 |
| Interest received from investments | 15 | 4 | 9 | 2 | 1 | 5 | 23 |
| Investment in long-term deposit | - | - | - | - | - | - | (12) |
| Net cash provided by investing activities | (402) | (117) | (425) | (136) | (39) | (148) | (560) |
| Cash flows from financing activities | | | | | | | |
| Payment of long-term loans from banks | (648) | (189) | - | - | - | - | (645) |
| Payment of debentures | (125) | (37) | - | (125) | (37) | - | - |
| Proceeds from issuance of debentures, net of issuance costs | 589 | 172 | - | - | - | - | 1,066 |
| Cash dividend paid | (1,225) | (358) | (383) | (270) | (79) | (198) | (639) |
| Interest paid | (175) | (51) | (165) | (87) | (25) | (47) | (177) |
| Net cash provided by financing activities | (1,584) | (463) | (548) | (482) | (141) | (245) | (395) |

| | | | | | | | |
|---|-------|-------|-----|-----|----|-----|-----|
| Changes in cash and cash equivalents | (716) | (209) | 466 | - | - | 150 | 855 |
| Balance of cash and cash equivalents at beginning of the period | 911 | 266 | 56 | 195 | 57 | 372 | 56 |
| Balance of cash and cash equivalents at end of the period | 195 | 57 | 522 | 195 | 57 | 522 | 911 |

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Cellcom Israel Ltd.
(An Israeli Corporation)

Reconciliation for Non-GAAP Measures

EBITDA

The following is a reconciliation of net income to EBITDA:

| | Nine- month period ended | | | Three- month period ended | | | Year ended |
|-------------------------------|--|----------|----------|--|----------|----------|--------------|
| | September 30, | | | September 30, | | | December 31, |
| | Convenience translation into US dollar | | | Convenience translation into US dollar | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS | NIS |
| | millions | millions | millions | millions | millions | millions | millions |
| Net income | 742 | 217 | 691 | 239 | 70 | 271 | 875 |
| Income tax | 290 | 85 | 230 | 92 | 27 | 21 | 310 |
| Financing expenses | 357 | 104 | 191 | 123 | 36 | 97 | 287 |
| Financing income | (94) | (27) | (59) | (14) | (4) | (26) | (140) |
| Other (income) expenses | (16) | (5) | 2 | 2 | 1 | 2 | 3 |
| Depreciation and amortization | 561 | 164 | 575 | 188 | 54 | 193 | 775 |
| EBITDA | 1,840 | 538 | 1,630 | 630 | 184 | 558 | 2,110 |

Free Cash Flow

The following table shows the calculation of free cash flow:

| | Nine- month period ended | | | Three- month period ended | | | Year ended |
|--|--|----------|----------|--|----------|----------|--------------|
| | September 30, | | | September 30, | | | December 31, |
| | Convenience translation into US dollar | | | Convenience translation into US dollar | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS | NIS |
| | millions | millions | millions | millions | millions | millions | millions |

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| | | | | | | | |
|--------------------------------------|-------|-------|---------|-------|------|--------|---------|
| Cash flows from operating activities | 1,270 | 371 | * 1,439 | 618 | 180 | * 543 | * 1,810 |
| Cash flows from investing activities | (402) | (117) | *(425) | (136) | (39) | *(148) | *(560) |
| Free Cash Flow | 868 | 254 | 1,014 | 482 | 141 | 395 | 1,250 |

*Restated due to the new presentation of Statements of Cash Flows in accordance with International Financial Reporting Standards (IFRS), following the Company's adoption of IFRS as of January 1, 2008.

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Cellcom Israel Ltd.
and Subsidiaries

Financial Statements

As at September 30, 2008
(Unaudited)

Financial Statements as at September 30, 2008

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Interim Consolidated Balance Sheets

| | September 30, 2008 NIS millions (Unaudited) | Convenience translation into US dollar (Note 2E) September 30, 2008 US\$ millions (Unaudited) | September 30, 2007 NIS millions (Unaudited) | December 31, 2007 NIS millions (Audited) |
|---|--|---|--|---|
| Current assets | | | | |
| Cash and cash equivalents | 195 | 57 | 522 | 911 |
| Trade receivables | 1,503 | 439 | 1,356 | 1,385 |
| Other receivables, including derivatives | 131 | 38 | 69 | 96 |
| Inventory | 137 | 40 | 145 | 245 |
| Total current assets | 1,966 | 574 | 2,092 | 2,637 |
| Non- current assets | | | | |
| Long-term receivables | 610 | 178 | 532 | 575 |
| Property, plant and equipment, net | 2,186 | 639 | 2,322 | 2,335 |
| Intangible assets, net | 672 | 197 | 657 | 685 |
| Total non- current assets | 3,468 | 1,014 | 3,511 | 3,595 |
| Total assets | 5,434 | 1,588 | 5,603 | 6,232 |

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

Interim Consolidated Balance Sheets

| | Convenience translation into US dollar (Note 2E) | | | |
|---|--|---|--|---|
| | September 30, 2008 NIS millions (Unaudited) | September 30, 2008 US\$ millions (Unaudited) | September 30, 2007 NIS millions (Unaudited) | December 31, 2007 NIS millions (Audited) |
| Current liabilities | | | | |
| Short-term credit | 331 | 97 | 238 | 353 |
| Trade payables and accrued expenses | 708 | 207 | 742 | 953 |
| Current tax liabilities | 65 | 19 | 122 | 122 |
| Provisions | 77 | 23 | 82 | 91 |
| Other current liabilities, including derivatives | 319 | 93 | 365 | 384 |
| Total current liabilities | 1,500 | 439 | 1,549 | 1,903 |
| Long-term liabilities | | | | |
| Long-term loans from banks | - | - | 938 | 343 |
| Debentures | 3,417 | 999 | 2,039 | 2,983 |
| Provisions | 15 | 4 | 13 | 14 |
| Other long term liabilities | 1 | * - | 3 | 3 |
| Deferred taxes | 141 | 41 | 146 | 149 |
| Total non-current liabilities | 3,574 | 1,044 | 3,139 | 3,492 |
| Total liabilities | 5,074 | 1,483 | 4,688 | 5,395 |
| Shareholders' equity | | | | |
| Share capital | 1 | * - | 1 | 1 |
| Capital reserves | (44) | (13) | (23) | (33) |
| Retained earnings | 403 | 118 | 937 | 869 |
| Total shareholders' equity | 360 | 105 | 915 | 837 |
| Total liabilities and shareholders' equity | 5,434 | 1,588 | 5,603 | 6,232 |

* Less than 1 million

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

Interim Consolidated Statements of Income

| | Nine- month period ended | | | | Three- month period ended | | Year ended |
|-------------------------------------|--|-------------|-------------|-------------|--|-------------|--------------|
| | September 30, | | | | September 30, | | December 31, |
| | Convenience translation into US dollar (Note 2E) | | | | Convenience translation into US dollar (Note 2E) | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS | NIS |
| | millions | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Revenues | 4,845 | 1,416 | 4,466 | 1,650 | 482 | 1,572 | 6,050 |
| Cost of revenues | 2,554 | 746 | 2,417 | 856 | 250 | 847 | 3,377 |
| Gross profit | 2,291 | 670 | 2,049 | 794 | 232 | 725 | 2,673 |
| Selling and marketing expenses | 521 | 152 | 506 | 188 | 55 | 193 | 685 |
| General and administrative expenses | 491 | 144 | 488 | 164 | 48 | 167 | 653 |
| Other (income) expenses, net | (16) | (5) | 2 | 2 | * - | 2 | 3 |
| Operating income | 1,295 | 379 | 1,053 | 440 | 129 | 363 | 1,332 |
| Financing expenses | (357) | (104) | (191) | (123) | (36) | (97) | (287) |
| Financing income | 94 | 27 | 59 | 14 | 4 | 26 | 140 |
| Financing costs, net | (263) | (77) | (132) | (109) | (32) | (71) | (147) |
| Income before income tax | 1,032 | 302 | 921 | 331 | 97 | 292 | 1,185 |
| Income tax | 290 | 85 | 230 | 92 | 27 | 21 | 310 |
| Net income | 742 | 217 | 691 | 239 | 70 | 271 | 875 |
| Earnings per share | | | | | | | |
| Basic earnings per share (in NIS) | 7.60 | 2.22 | 7.09 | 2.45 | 0.72 | 2.78 | 8.97 |
| Diluted earnings per share (in NIS) | 7.48 | 2.19 | 7.03 | 2.41 | 0.71 | 2.75 | 8.89 |

| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| Weighted average number of shares used in the calculation of basic earnings per share (in thousands) | 97,606 | 97,606 | 97,500 | 97,736 | 97,736 | 97,500 | 97,500 |
| Weighted average number of shares used in the calculation of diluted earnings per share (in thousands) | 99,169 | 99,169 | 98,250 | 99,254 | 99,254 | 98,380 | 98,441 |

* Less than 1 million

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

Interim consolidated statement of recognized income and expenses

| | Nine- month period ended | | | Three- month period ended | | | Year ended |
|---|--|-------------|-------------|--|-------------|-------------|--------------|
| | September 30, | | | September 30, | | | December 31, |
| | Convenience translation into US dollar (Note 2E) | | | Convenience translation into US dollar (Note 2E) | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS | NIS |
| | millions | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Net change in fair value of cash flow hedges transferred to profit and loss | 35 | 10 | 22 | 17 | 5 | 4 | 27 |
| Changes in fair value of cash flow hedges | (37) | (11) | (15) | 3 | 1 | (16) | (28) |
| Tax expenses directly recognized in equity | (9) | (2) | (6) | (4) | (1) | (1) | (8) |
| Income and expenses recognized directly in equity | (11) | (3) | 1 | 16 | 5 | (13) | (9) |
| Net income for period | 742 | 217 | 691 | 239 | 70 | 271 | 875 |
| Total recognized income for the period | 731 | 214 | 692 | 255 | 75 | 258 | 866 |

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

Interim Consolidated Statements of Cash Flows

| | Nine- month period ended | | | Three- month period ended | | | Year ended |
|---|--|-------------|-------------|--|-------------|-------------|--------------|
| | September 30, | | | September 30, | | | December 31, |
| | Convenience translation into US dollar (Note 2E) | | | Convenience translation into US dollar (Note 2E) | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS | NIS |
| | millions | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Cash flows from operating activities | | | | | | | |
| Net income for the period | 742 | 217 | 691 | 239 | 70 | 271 | 875 |
| Adjustments to reconcile net income to funds generated from operations: | | | | | | | |
| Depreciation | 428 | 125 | 461 | 142 | 42 | 153 | 619 |
| Amortization | 133 | 39 | 114 | 46 | 13 | 40 | 156 |
| Reversal of provision allowance | - | - | - | - | - | - | (10) |
| Loss (gain) on sale of assets | (15) | (4) | 4 | 2 | * - | 2 | 4 |
| Income tax expense | 290 | 85 | 230 | 92 | 27 | 21 | 310 |
| Financial costs, net | 263 | 77 | 132 | 109 | 32 | 71 | 147 |
| Equity settled share based payments transaction | 20 | 6 | 25 | 3 | 1 | 7 | 29 |
| Changes in operating assets and liabilities: | | | | | | | |
| Changes in inventories | 94 | 27 | (14) | 12 | 4 | (20) | (114) |
| Changes in trade receivables (including long-term amounts) | (163) | (48) | (69) | (50) | (15) | (35) | (99) |
| Changes in other receivables and debits (including long-term amounts) | (44) | (13) | 10 | (2) | * - | 23 | (24) |
| Changes in trade payables | (162) | (47) | 30 | 107 | 31 | 38 | 188 |
| | 64 | 19 | 104 | 29 | 8 | 67 | 92 |

Changes in other
payables and credits
(including long-term
amounts)

| | | | | | | | |
|--|-------|-------|-------|------|------|------|-------|
| Payments for inventory hedging contracts, net | (34) | (10) | (18) | (14) | (4) | (2) | (24) |
| Proceeds (payments) for derivative contracts, net | 9 | 3 | (21) | (2) | * - | (6) | (26) |
| Income tax paid | (355) | (104) | (240) | (95) | (28) | (87) | (313) |
| Net cash provided by operating activities | 1,270 | 372 | 1,439 | 618 | 181 | 543 | 1,810 |

* Less than 1 million

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

Interim Consolidated Statements of Cash Flows (cont'd)

| | Nine- month period ended | | | Three- month period ended | | | Year ended |
|---|--|-------------|-------------|--|-------------|-------------|--------------|
| | September 30, | | | September 30, | | | December 31, |
| | Convenience translation into US dollar (Note 2E) | | | Convenience translation into US dollar (Note 2E) | | | |
| | 2008 | 2008 | 2007 | 2008 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | US\$ | NIS |
| | millions | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Cash flows from investing activities | | | | | | | |
| Acquisition of property, plant, and equipment | (323) | (94) | (364) | (98) | (28) | (136) | (466) |
| Acquisition of intangible assets | (129) | (38) | (63) | (35) | (10) | (17) | (97) |
| Payments for property, plant and equipment hedging contracts, net | (17) | (5) | (9) | (7) | (2) | (1) | (12) |
| Proceeds from sales of assets | 52 | 15 | 2 | 2 | * - | 1 | 4 |
| Interest received from investments | 15 | 4 | 9 | 2 | * - | 5 | 23 |
| Investment in long-term deposit | - | - | - | - | - | - | (12) |
| Net cash provided by investing activities | (402) | (118) | (425) | (136) | (40) | (148) | (560) |
| Cash flows from financing activities | | | | | | | |
| Payment of long-term loans from banks | (648) | (189) | - | - | - | - | (645) |
| Payment of Debentures | (125) | (37) | - | (125) | (37) | - | - |
| Proceeds from issuance of debentures, net of issuance costs | 589 | 172 | - | - | - | - | 1,066 |
| Cash dividend paid | (1,225) | (358) | (383) | (270) | (79) | (198) | (639) |
| Interest paid | (175) | (51) | (165) | (87) | (25) | (47) | (177) |
| | (1,584) | (463) | (548) | (482) | (141) | (245) | (395) |

| | | | | | | | |
|---|-------|-------|-----|-----|----|-----|-----|
| Net cash provided by financing activities | | | | | | | |
| Changes in cash and cash equivalents | (716) | (209) | 466 | - | - | 150 | 855 |
| Balance of cash and cash equivalents at beginning of the period | 911 | 266 | 56 | 195 | 57 | 372 | 56 |
| Balance of cash and cash equivalents at end of the period | 195 | 57 | 522 | 195 | 57 | 522 | 911 |

* Less than 1 million

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

Notes to the Financial Statements

Note 1 - General

Cellcom Israel Ltd. (the "Company") is a company incorporated and domiciled in Israel. The condensed consolidated interim financial statements of the Company as at and for the nine and three months ended September 30, 2008 comprise of the Company and its active subsidiaries. The Company operates and maintains a cellular mobile telephone system and provides cellular mobile telephone services in Israel.

Note 2 – Basis of Preparation of the Financial Statements

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Company's third condensed consolidated interim financial statements that were prepared in accordance with IFRS and IFRS 1 First Time Adoption of International Financial Reporting Standards.

These condensed consolidated interim financial statements have been prepared in accordance with (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statement of the Company as at and for the year ended December 31, 2007.

The influence of the transition to IFRS on the Company's financial statements for the year ended December 31, 2007 and for the period ended September 30, 2007, its results of operations and its cash flows, is detailed in note 10.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 10, 2008.

B. Functional and presentational currency

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

C. Basis of measurement

These condensed consolidated interim financial statements have been prepared on the basis of historical cost except for the following assets and liabilities that are presented according to their fair value: derivative financial instruments and financial instruments measured at fair value.

The value of non monetary assets and equity items that were measured on the basis of historical cost, have been adjusted for changes in the general purchasing power of the Israeli currency -NIS, based upon changes in the Israeli Consumer Price Index ("CPI") until December 31, 2003, as until that date the Israeli economy was considered hyperinflational.

Notes to the Financial Statements

Note 2 – Basis of Preparation of the Financial Statements (cont'd)

D. Exchange rates and Consumer Price Indexes are as follows:

| | Exchange rates of US\$ | Consumer Price Index (points) |
|--|------------------------------|-------------------------------------|
| As of September 30, 2008 | 3.421 | 199.5 |
| As of September 30, 2007 | 4.013 | 189.1 |
| As of December 31, 2007 | 3.846 | 191.2 |
| Increase (decrease) during the period: | | |
| Nine months ended September 30, 2008 | (11.1%) | 4.3% |
| Nine months ended September 30, 2007 | (5.0%) | 2.3% |
| Three months ended September 30, 2008 | 2.1% | 2.1% |
| Three months ended September 30, 2007 | (5.6%) | 1.3% |
| Year ended December 31, 2007 | (9.0%) | 3.4% |

E. Convenience translation into U.S. dollars (“dollars” or “\$”)

For the convenience of the reader, the reported NIS figures as of September 30, 2008 and for the three months then ended, have been presented in dollars, translated at the representative rate of exchange as of September 30, 2008 (NIS 3.421 = US\$ 1.00). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

F. Use of estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Management determines estimates based upon past experience, various facts, external sources and reasonable assumptions according to the circumstances appropriate to each estimate. Actual results may differ from these estimates.

The judgments, estimates and assumptions are reviewed periodically. Changes in accounting estimates are recognized in the period they were applied and in future affected periods.

G. Capital management- objectives, procedures and processes

The Company's capital management aim is to ensure a sound and efficient capital structure which takes into consideration, among others, the following factors:

A gearing ratio that supports the Company's cash flow needs vis a vis its potential cash flow generation, supporting its dividend policy, while maintaining a net debt to EBITDA ratio that meets the industry standards. The Company considers net debt to EBITDA ratio to be an important measure for investors, analysts, and rating agencies. This ratio is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The Company's debt consists of short and long term debentures traded

publicly in the Tel Aviv Stock Exchange and rated AA- by Maalot, an S&P subsidiary.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared according to International Financial Reporting Standards that were published and that are in effect or otherwise available for early adoption as of the first annual report in compliance with IFRS, December 31, 2008, and on the basis of which the accounting policy of the Company was determined.

IFRS that are in effect or will otherwise be available for early adoption in the annual financial statements for the year ending December 31, 2008, are subject to changes and additional clarification publications and therefore cannot be determined with certainty. Accordingly, the accounting policy for this year, that is relevant for this interim information, will be determined finally only during the preparation of the first annual financial statements in accordance with IFRS on December 31, 2008.

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2007 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from previous Israeli GAAP to IFRSs is explained in note 10.

A. Principles of consolidation

These consolidated financial statements include consolidation of the financial statements of the Company and its fully owned active subsidiaries: Cellcom Real Estate (2001) Ltd., Cellcom Holdings (2001) Ltd. and Cellcom Fixed Line Communication L.P., a limited partnership. All inter-company transactions and balances were eliminated upon consolidation.

B. Foreign currency transactions

Transactions in foreign currencies are translated at the prevailing foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to NIS at the prevailing foreign exchange rate at that date. Foreign exchange differences arising on translation are recognized in profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NIS at the prevailing foreign exchange rates at the dates the fair value was determined.

C. Financial instruments

1. Non derivative financial instruments

Non derivative financial instruments are comprised of cash and cash equivalents, trade receivables, other receivables, loans and credit, trade payables and other payables.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities are reasonable estimates of their fair value, due to the short-term nature of these instruments. Financial

instruments that could potentially subject the Company to credit risks consist primarily of trade accounts receivables. Credit risk with respect to these receivables are limited due to the composition of the subscriber base, which includes a large number of individuals and businesses.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

1. Non derivative financial instruments (cont'd)

Financial instruments are recognized when the Company takes upon itself the contractual terms of the instrument. Financial assets are dispositioned when the Company's rights for cash flows arising from the financial asset expire, or when the Company transfers the financial asset to others without leaving itself control in the asset, or transfers all the risks and benefits that arise from the asset. Sales and acquisitions of financial instruments are recognized on the transaction date, hence the date in which the Company is obligated to sell or buy the asset. Financial liabilities are dispositioned when the Company's contractual obligations expire, or when it was dismissed or cancelled.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and call deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables and other receivables are recorded at amortized cost as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience. Individual trade receivables are written off when management deems them not to be collectible.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

2. Derivative financial instruments

The Company holds derivative financial instruments for hedging foreign currency risks and interest risks. Embedded derivatives are separated from the host contract and carried at fair value when (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, and (3) the combined instrument is not measured at fair value through profit and loss.

Derivatives are initially recognized at fair value; transaction costs that can be attributed are subjected to profit and loss when they arise. Subsequent to initial recognition, derivatives are measured at fair value. Changes in fair value are accounted for as follows:

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit and loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecasted transaction occurs. The amount recognized in equity is transferred to profit and loss

in the same period that the hedged item affects profit and loss.

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Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

2. Derivative financial instruments (cont'd)

Economic Hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit and loss as part of foreign currency gains and losses.

Separable embedded derivatives

Changes in fair value of separable embedded derivatives are recognized immediately in profit and loss.

3. Financial instruments linked to the Israeli CPI that are not measured at fair value

The book value of a financial instrument and the payments derived from it are revaluated in each period according to the actual rate of change in the CPI.

4. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

D. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other (income) expenses" in profit and loss.

Depreciation is calculated using the straight-line method. If the property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. The annual depreciation rates are as follows:

| | |
|------------------------------------|-------|
| | % |
| Network and transmission equipment | 5-20 |
| Control and testing equipment | 15-25 |
| Vehicles | 15 |

| | |
|--------------------------------|-------|
| Computers and hardware | 15-33 |
| Furniture and office equipment | 6-15 |

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the expected lease terms.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets

Intangible assets consist of licenses, computer software costs and deferred expenses.

- (1) Intangible assets are stated at cost, including direct costs necessary to prepare the asset for its intended use. A group of similar intangible assets are measured at cost net of accumulated amortization minus impairment losses.
- (2) Certain direct and indirect development costs associated with internally developed services, and payroll costs for employees devoting time to the software projects, incurred during the application development stage, are capitalized. The costs are amortized using the straight-line method beginning when the asset is substantially ready for use. Costs incurred during the research stage and after the asset is substantially ready for use are expensed as incurred.
- (3) Deferred expenses in respect of commissions regarding the acquisition of new subscribers are recognized as intangible assets, if the costs can be measured reliably, incremental to the contract and directly attributable to obtaining a specific subscriber. If the costs do not meet the aforementioned criteria, they are recognized immediately as expenses.
- (4) Amortization is calculated using the straight-line method. If the intangible assets consist of several components with different estimated useful lives, the individual significant components are amortized over their individual useful lives. The annual amortization rates are as follows:

| | % |
|---------------------|---------------|
| | (m a i n l y |
| Licenses | 5-66%) |
| Information systems | 25 |
| Software | 25 |

Deferred costs are amortized over the expected life of the subscriber contractual relationship (mainly 18 months).

F. Inventory

Inventory of cellular phone equipment and accessories and spare-parts are stated at the lower of cost or net realizable value. Cost is determined by the moving average method.

G. Capitalization of financing costs

Financing costs associated with the cost of constructing the wireless networks during the initial construction phase and the cost of acquiring the spectrum licenses until the beginning of their intended use are capitalized to the cost of such assets. The amount of financing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on the asset eligible for capitalization. The capitalization rate is the weighted average of the financing costs applicable to the borrowing and loans of the Company that are outstanding during the period, or the rate applicable to a borrowing specifically for the purpose of obtaining a specific asset. The amount of financing costs capitalized during the reported periods did not exceed the amount of financing costs incurred during these periods.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

H. Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

I. Share based payments

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in retained earnings, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Fair value is measured using a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

J. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the management best estimate of the expenditure required to settle the obligation at the balance sheet date.

K. Revenue

Revenues from sales of handsets and accessories that are not contingent upon the delivery of additional products or services are recognized when products are delivered to and accepted by customers. Revenues from long-term credit arrangements are recognized on the basis of the present value of future cash flows, discounted according to market interest rates at the time of the transaction. The difference between the original credit and its present value is recorded as interest income over the credit period.

Revenues derived from usage of the Company's networks, including airtime, interconnect and roaming revenues are recognized when the services are provided.

Prepaid wireless airtime sold to customers is recorded as deferred revenue prior to the commencement of services and is recognized when the airtime is used or expires.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

K. Revenue (cont'd)

Revenue is recorded net of value added taxes.

The Company offers enhanced services including voice mail, text and multimedia messaging, as well as downloadable wireless data applications, including ring tones, music, games, and other informational content. Generally, these enhanced features and data applications generate additional service revenues through monthly subscription fees or increased usage through utilization of the features and applications. Other optional services, such as equipment warranty plans are also provided for a monthly fee and are either sold separately or bundled and included in packaged rate plans. Revenues from enhanced features and optional services are recognized when earned.

Costs of revenues mainly include ongoing license fees, interconnection and roaming expenses, cell site leases, depreciation and amortization charges and technical repair and maintenance expenses directly related to services rendered.

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods, and the amount of revenue can be measured reliably.

When the Company acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, revenues are presented on a net basis (as a profit or a commission). However, when the Company acts as a principal supplier and bears the risks and rewards resulting from the transaction, revenues are presented on a gross basis, distinguishing the revenue from the related expenses.

L. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

M. Finance income and expenses

Finance income is comprised of interest income on funds invested and interest income on installment sales. Interest income is recognized as it accrues in profit and loss.

Finance expenses are comprised of interest and indexing expenses on loans and debentures and unwinding of the discount on provisions. All borrowing costs are recognized in profit and loss using the effective interest method.

Foreign currency gains and losses and gains and losses on hedging instruments that are recognized in profit and loss are reported on a net basis.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

N. Deferred taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

O. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

P. Liability for Employee Severance Benefits, net

The Company's liability is fully provided by monthly deposits with severance pay funds, insurance policies and by an accrual. For the majority of the Company employees the payments to the pension funds and insurance companies discharge the Company's obligation to the employees as required by the Severance Pay Law in connection with Section 14. Accumulated amounts in the pension funds and with the insurance companies are not under the control or administration of the Company, and accordingly, neither those amounts nor the corresponding accrual for severance pay are reflected in the balance sheet.

Q. Advertising expenses

Advertising costs are expensed as incurred.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

R. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing these consolidated interim financial statements:

1. Revised IAS 23 Borrowing Costs. The revised standard removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. The Company does not expect these amendments to impact the financial statements of the Company.
2. IFRS 2 Share-based Payments – Vesting Conditions and Cancellations. This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Company has not entered into share-based payment plans with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.
3. Revised IAS 1 Presentation of Financial Statements. The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after January 1 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit and loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Company will present separate statements.
4. Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements- Puttable Financial Instruments and Obligations arising on Liquidation were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect these amendments to impact the financial statements of the Company.
5. IFRIC 13: IFRIC 13 addresses how companies, that grant their customers loyalty award credits (often called ‘points’) when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. The interpretation is based on a view that customers are implicitly paying for the points they receive when they buy other goods or services, and hence that some revenue should be allocated to the points. The interpretation requires companies to estimate the value of the points to the customer and

defer this amount of revenue as a liability until they have fulfilled their obligations to supply awards. The interpretation is mandatory for annual periods beginning on or after 1 July 2008. The Company is still in the process of assessing the impact of the interpretation to its financial statements, if any.

Notes to the Financial Statements (cont'd)

Note 3 - Significant Accounting Policies (cont'd)

R. New standards and interpretations not yet adopted (cont'd)

6. IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements, revised ("standards").

The main revisions to the new standards are: including business combinations that involve only mutual entities, or that are executed through contracts only, a revised definition of business and business combinations, a change in the measurement method of carried forward items in business combinations, providing two measurement options regarding non-controlling rights, a change in the accounting treatment of transaction costs, the accounting treatment regarding piece by piece acquisitions, the allocation of comprehensive income between shareholders, the accounting for acquisitions or sales of equity rights while maintaining control as equity transactions, the accounting for transactions that result in gain or loss of control in full fair value, so that the subsequent holdings after the loss of control are recognized through profit and loss, and the original investment in obtaining control is also recognized in fair value through profit and loss, and a broadening of disclosure requirements. The standards shall be applied on annual reporting periods beginning on, or after, July 1, 2009. Earlier application is permitted (only if both standards are implemented simultaneously). IFRS 3 applies to business combinations for which the acquisition date is on or after the application date. IAS 27 shall be applied retrospectively, except for the allocation of comprehensive income between shareholders, the treatment in changes in rights in a subsidiary subsequent to obtaining control, and the treatment in the loss of control in a subsidiary, which will be applied as from the date of application.

7. Eligible Hedged Items (amendment to IAS 39 Financial Instruments: Recognition and Measurement) introduces application guidance to illustrate how the principles underlying hedge accounting should be applied in the designation of i) a one-sided risk in a hedged item and ii) inflation in a financial hedged item. The amendment is effective, with retrospective application, for annual periods beginning on or after 1 July 2009 and is not expected to have any effect on the consolidated financial statements.

8. IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Company does not present segment information. It is not expected to have any impact on the consolidated financial statements.

Notes to the Financial Statements (cont'd)

Note 4- Non-cash Investing and Financing Activities

| | Nine- month period ended | | Three- month period ended | | Year ended | |
|--|--|-------------|--|-------------|--------------|-----------|
| | September 30, | | September 30, | | December 31, | |
| | Convenience translation into US dollar (Note 2E) | | Convenience translation into US dollar (Note 2E) | | | |
| | 2008 | 2008 | 2007 | 2008 | 2007 | 2007 |
| | NIS | US\$ | NIS | NIS | US\$ | NIS |
| | millions | millions | millions | millions | millions | millions |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Acquisition of property, plant and equipment and intangible assets on credit | 139 | 41 | 109 | 89 | 26 | 216 |
| Tax withheld regarding cash dividend | 19 | 6 | 16 | 19 | 6 | 16 |

Note 5- Income Tax

On February 26, 2008 the Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 (“the Amendment”) was passed by the Knesset. According to the Amendment, the Adjustments Law will no longer be applicable subsequent to the 2007 tax year, except for the transitional provisions whose objectives are to prevent distortion of the taxation calculations.

In addition, according to the amendment, commencing from the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Furthermore, depreciation on protected assets and carryforward tax losses will no longer be linked to the CPI, with these balances being adjusted to the CPI through the end of the 2007 tax year, and linkage thereon ceasing from the 2008 tax year onwards.

Note 6- Shareholders' Equity

A. Dividends

Dividends declared during the reported period are as follows:

| Nine-month period ended | Three-month period ended |
|-------------------------|--------------------------|
| September 30, 2008 | September 30, 2008 |
| Convenience translation | Convenience translation |

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| | | into US dollars (Note 2E) | | into US dollars (Note 2E) |
|--------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | NIS millions (Unaudited) | US\$ millions (Unaudited) | NIS millions (Unaudited) | US\$ millions (Unaudited) |
| 7.18 NIS per share | 700 | 205 | - | - |
| 2.65 NIS per share | 258 | 75 | - | - |
| 2.76 NIS per share | 270 | 79 | 270 | 79 |
| | 1,228 | 359 | 270 | 79 |

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Notes to the Financial Statements (cont'd)

Note 6- Shareholders' Equity (cont'd)

A. Dividends (cont'd):

On April 14, 2008 the Company paid a cash dividend in the amount of NIS 7.18 per share, totaling approximately NIS 700 million.

On June 10, 2008, the Company paid a cash dividend in the amount of NIS 2.65 per share, totaling approximately NIS 258 million.

On September 8, 2008, the Company paid a cash dividend in the amount of NIS 2.76 per share, totaling approximately NIS 270 million.

On November 10, 2008, subsequent to the balance sheet date, the Company's Board of Directors declared a cash dividend in the amount of NIS 3.07 per share, totaling approximately NIS 300 million (based on the Company's issued shares as at November 10), to be paid on December 8, 2008, to the shareholders of the Company of record at the end of the trading day in the NYSE on November 24, 2008 ("Record date"). Should all share-based options, vested on the Record date, be exercised before the Record date, total dividend amount will increase to approximately NIS 302 million.

B. Additional Changes in Shareholders' Equity

| | Share capital amount | Cash flow hedge reserve | Retained earnings | Total | Convenience translation into U.S. dollar (Note 2E) US\$ millions |
|--|----------------------------|-------------------------------|----------------------|---------|--|
| | NIS millions | | | | |
| For the nine-month period ended September 30, 2008 (Unaudited) | | | | | |
| Balance as of January 1, 2008 (Audited) | 1 | (33) | 869 | 837 | 244 |
| Total recognized income and expenses | - | (11) | 742 | 731 | 214 |
| Share based payments | - | - | 20 | 20 | 6 |
| Cash dividend paid | - | - | (1,228) | (1,228) | (359) |
| Balance as of September 30, 2008 (Unaudited) | 1 | (44) | 403 | 360 | 105 |

| | Share capital amount | Cash flow hedge reserve | Retained earnings | Total | Convenience translation into U.S. dollar (Note 2E) |
|--|----------------------------|-------------------------------|----------------------|-------|--|
| | NIS millions | | | | |

US\$
millions

For the nine-month period ended
September 30, 2007
(Unaudited)

| | | | | | |
|---|---|------|-------|-------|-------|
| Balance as of January 1, 2007 (Audited) | 1 | (24) | 620 | 597 | 175 |
| Total recognized income and expenses | - | 1 | 691 | 692 | 202 |
| Share based payments | - | - | 25 | 25 | 7 |
| Cash dividend paid | - | - | (399) | (399) | (117) |
| Balance as of September 30, 2007 (Unaudited) | 1 | (23) | 937 | 915 | 267 |

Notes to the Financial Statements (cont'd)

Note 6- Shareholders' Equity (cont'd)

B. Additional Changes in Shareholders' Equity (cont'd)

| | Share capital amount | Cash flow hedge reserve | Retained earnings | Total | Convenience translation into U.S. dollar (Note 2E) US\$ millions |
|---|----------------------------|-------------------------------|----------------------|-------|--|
| | NIS millions | | | | |
| For the three-month period ended September 30, 2008 (Unaudited) | | | | | |
| Balance as of June 30, 2008 (Unaudited) | 1 | (60) | 431 | 372 | 108 |
| Total recognized income and expenses | - | 16 | 239 | 255 | 75 |
| Share based payments | - | - | 3 | 3 | 1 |
| Cash dividend paid | - | - | (270) | (270) | (79) |
| Balance as of September 30, 2008 (Unaudited) | 1 | (44) | 403 | 360 | 105 |

| | Share capital amount | Cash flow hedge reserve | Retained earnings | Total | Convenience translation into U.S. dollar (Note 2E) US\$ millions |
|---|----------------------------|-------------------------------|----------------------|-------|--|
| | NIS millions | | | | |
| For the three-month period ended September 30, 2007 (Unaudited) | | | | | |
| Balance as of June 30, 2007 (Unaudited) | 1 | (10) | 860 | 851 | 249 |
| Total recognized income and expenses | - | (13) | 271 | 258 | 75 |
| Share based payments | - | - | 7 | 7 | 2 |
| Cash dividend paid | - | - | (201) | (201) | (59) |
| Balance as of September 30, 2007 (Unaudited) | 1 | (23) | 937 | 915 | 267 |

| Share capital amount | Cash flow hedge reserve | Retained earnings | Total | Convenience translation into U.S. dollar |
|----------------------------|-------------------------------|----------------------|-------|---|
|----------------------------|-------------------------------|----------------------|-------|---|

| | NIS millions | | | (Note 2E) US\$ millions | |
|--------------------------------------|--------------|------|-------|-------------------------------|-------|
| For the year ended December 31, 2007 | | | | | |
| (Audited) | | | | | |
| Balance as of January 1, 2007 | | | | | |
| (Audited) | 1 | (24) | 620 | 597 | 175 |
| Total recognized income and expenses | - | (9) | 875 | 866 | 253 |
| Share based payments | - | - | 29 | 29 | 8 |
| Cash dividend paid | - | - | (655) | (655) | (192) |
| Balance as of December 31, 2007 | | | | | |
| (Audited) | 1 | (33) | 869 | 837 | 244 |

Notes to the Financial Statements (cont'd)

Note 7- Long-term Loans from Banks

On March 10, 2008 the Company voluntarily prepaid the balance of the outstanding amounts under its credit facility, in a principal amount of \$140 million (comprising of \$85 million denominated in US\$ and approximately NIS 253 million denominated in NIS), following which, the credit facility and all covenant restrictions were terminated. For more details refer to note 13C of the Company's annual financial statements as at December 31, 2007.

Note 8- Debentures

In February 2008, the Company issued, in a private placement to institutional investors, additional debentures of Series C, in a principal amount of NIS 81 million and additional debentures of Series D, in a principal amount of approximately NIS 494 million, in exchange for a total consideration of NIS 600 million.

Debentures of series C are payable in nine semi-annual installments, on March 1 and September 1 of each of the years 2009 through 2012, and on March 1, 2013. The debentures bear an annual interest of 4.60%. The interest is to be paid in semi-annual installments on March 1 and September 1 of each of the years 2008 through 2012 and on March 1, 2013. Both the principal amount and interest are linked to the Israeli Consumer Price Index for August 2007.

Debenture of series D are payable in five equal annual installments, on July 1 of each of the years 2013 through 2017. The debentures bear an annual interest of 5.19%. The interest is to be paid in annual installments on July 1 of each of the years 2008 through 2017. Both the principal amount and interest are linked to the Israeli Consumer Price Index for August 2007.

Note 9 - Commitments and Contingent Liabilities

A. Contingent liabilities

1. In January 2007 a purported class action lawsuit was filed against the Company, two other cellular operators and two landline operators in the District Court of Jerusalem by three plaintiffs, claiming to be subscribers of some of the defendants, in connection with an alleged violation of the defendants' statutory duty to allow their subscribers to transfer with their number to another operator, thus, allegedly causing monetary damage to the subscribers. In March 2008 the motion for certification as a class action was dismissed without prejudice and the lawsuit was dismissed with prejudice, following request of the plaintiffs to withdraw their claim. Had the lawsuit been certified as a class action, the total amount claimed was estimated by the plaintiffs to be at least NIS 10.6 billion.
2. In April 2007, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv-Jaffa, by two plaintiffs who claim to be subscribers of the Company. The claim alleges that the Company, unlawfully and in violation of its license, raised its rates in pricing plans that include a commitment to purchase certain services for a fixed period. In February 2008 the motion for certification as a class action and the lawsuit were denied. Had the lawsuit been certified as a class action, the amount claimed was estimated by the plaintiffs at approximately NIS 230 million.
3. In February 2008 a purported class action lawsuit was filed against the Company in the District Court of Central Region, by plaintiffs claiming to be subscribers of the Company, in connection with sums the Company allegedly overcharged, when the Company raised its tariffs for SMS packages. If the lawsuit is recognized as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 43 million. Based on advice of counsel,

management believes it is more likely than not, that the claim would not be certified as a class action. Accordingly, no provision has been made in the financial statements in respect of this claim.

Notes to the Financial Statements (cont'd)

Note 9 - Commitments and Contingent Liabilities (cont'd)

A. Contingent liabilities (cont'd)

4. In March 2008 a purported class action lawsuit was filed against the Company in the District Court of Central Region, by plaintiffs claiming to be the Company's subscribers. The plaintiffs claim that the Company has unlawfully charged its subscribers for providing them with call details records. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 440 million. Based on advice of counsel, management believes it is more likely than not, that the claim would not be certified as a class action. Accordingly, no provision has been made in the financial statements in respect of this claim.
5. In April 2008 a purported class action lawsuit was filed against the Company in the District Court of Tel Aviv-Jaffa, by plaintiffs claiming to be subscribers of the Company. The plaintiffs claim that the Company overcharged certain subscribers entitled to rebates under their agreement with the Company, by miscalculating the rebate. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiffs to be approximately NIS 100 million. Based on advice of counsel, management believes it is more likely than not, that the claim would not be certified as a class action. Accordingly, no provision has been made in the financial statements in respect of this claim.
6. In May 2008 a purported class action lawsuit was filed against the Company and two other cellular operators ("the defendants") in the District Court of Tel Aviv-Jaffa, by plaintiffs claiming to be subscribers of the defendants. The plaintiffs claim that the defendants have unlawfully charged their subscribers for certain failed calls attempted by the subscribers, while abroad. If the lawsuit is certified as a class action, the total amount claimed from all three defendants is estimated by the plaintiffs to be approximately NIS 50 million, without specifying the amount attributed to the Company. Based on advice of counsel, management believes it is more likely than not, that the claim would not be certified as a class action. Accordingly, no provision has been made in the financial statements in respect of this claim.
7. In September 2007, a purported class action lawsuit was filed against the Company and two other cellular operators ("the defendants") in the District Court of Jerusalem, by three plaintiffs who claim to be subscribers of the defendants. The plaintiffs claim that the defendants charged their subscribers for SMS messages sent by them to subscribers who disabled their ability to receive SMS messages and/or misled the senders by an indication on their cell phones that such messages were sent. In July 2008, the motion for certification as a class action was dismissed without prejudice and the lawsuit was dismissed with prejudice, following an agreed upon request of the plaintiffs to withdraw their claim. Had the dismissed lawsuit been certified as a class action, the total amount claimed from all three defendants was estimated by the plaintiffs to be approximately NIS 182.5 million, without specifying the amount claimed from the Company. The defendants agreed, for service oriented considerations, not to charge, to provide an indication of failure and to refund their customers for such SMS messages (amounting to negligible sums).
8. In July 2008, a purported class action lawsuit was filed against the Company in the District Court of Tel Aviv-Jaffa, by a plaintiff claiming to be a subscriber of the Company. The plaintiff claims that the Company misleads and overcharges certain subscribers, in relation to airtime packages. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 72 million. At this preliminary stage, the Company is unable to assess the lawsuit's chances of success. Accordingly, no provision has been made in the financial statements in respect of this claim.

Notes to the Financial Statements (cont'd)

Note 9 - Commitments and Contingent Liabilities (cont'd)

A. Contingent liabilities (cont'd)

9. In July 2008, a purported class action lawsuit was filed against the Company in the District Court of Tel Aviv-Jaffa, by a plaintiff claiming to be a subscriber of the Company. The plaintiff claims that the Company misleads and unlawfully charges its subscribers for a certain automatic call completion service, even if not used. If the lawsuit is certified as a class action, the amount claimed is estimated by the plaintiff to be approximately NIS 179 million. At this preliminary stage, the Company is unable to assess the lawsuit's chances of success, but it should be noted that maximum liability – assuming plaintiff's claims are accepted – is assessed by the Company as immaterial. Accordingly, no provision has been made in the financial statements in respect of this claim.

10. In August 2001, a purported class action lawsuit was filed against the Company in the District Court of Tel-Aviv-Jaffa by one of the Company's subscribers in connection with air time tariffs and subscriber fees that were allegedly collected not in accordance with the agreement with the subscribers. The lawsuit was amended (after being transferred to the District Court of Central Region) in 2006. In September 2008, the motion for certification as a class action was dismissed with prejudice. Had the lawsuit been certified as a class action, the amount claimed was estimated by the plaintiff to be NIS 1.26 billion, plus punitive damages at a rate of not less than 100% of the amount of the judgment.

For other contingent liabilities, refer to Note 16A to the Company's annual financial statements as at December 31, 2007.

B. Effects of new legislation and standards

In October 2008, subsequent to the balance sheet date, the Israeli cellular operators general licenses for the provision of cellular services, including the Company's, were amended, effective December 31, 2008, so as to require the operators to set a fixed tariff in subscribers agreements including a commitment for a predefined period, for the duration of the period. The change applies to non-business subscribers.

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs

As stated in note 2(a), these are the Company's first condensed consolidated interim financial statements for part of the period covered by the first IFRS annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in note 3 have been applied in preparing the condensed consolidated interim financial statements for the nine and three months ended September 30, 2008, the comparative information for the nine and three months ended September 30, 2007, the financial statements for the year ended December 31, 2007 and the preparation of an opening IFRS balance sheet at January 1, 2007 (the Company's date of transition).

This note has been prepared according to IFRSs that are in effect or will otherwise be available for early adoption in the annual financial statements for the year ending December 31, 2008 that are subject to changes and additional clarification publications and therefore cannot be determined with certainty. Accordingly, the accounting policy for this year, that is relevant for this interim information, will be determined finally only during the preparation of the first annual financial statements in accordance with IFRS on December 31, 2008.

An explanation of how the transition from previous Israeli GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

IFRS exemptions implemented

Provisions include asset retirement obligations. Upon the initial recognition of property, plant and equipment, the Company includes in the cost of the asset all the costs it will be required to incur in respect of a liability to dismantle and remove the asset and to restore the site on which it was located.

The Company recognized a liability to dismantle and remove the asset and to restore the site on which it was located in accordance with IAS 37 at the transition date. For the measurement of a fixed asset item, according to the exemption included in IFRS 1 paragraph 25E, the Company calculated the amount that would have been included in the cost of the asset on the date on which the liability was initially incurred by capitalizing the amount of the liability mentioned in the item above to the date on which the liability was initially incurred.

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

Reconciliation of equity

| | Note | Israeli GAAP as reported prior to the adoption of new Israeli accounting standards in 2007 | | Effects reflected upon the adoption of new Israeli accounting standards in 2007 | | January 1, 2007 Effect of applying IFRS | | December 31, 2007 | | |
|--|------|--|--------------|---|--------------|--|-------------------|---------------------------|--------------------------------------|-------------------|
| | | NIS millions | NIS millions | NIS millions | NIS millions | Other effect of applying IFRS NIS millions | IFRS NIS millions | Israeli GAAP NIS millions | Effect of applying IFRS NIS millions | IFRS NIS millions |
| C u r r e n t assets | | | | | | | | | | |
| Cash and cash equivalents | | 56 | - | 56 | - | 56 | 911 | - | 911 | |
| Trade receivables | | 1,242 | - | 1,242 | - | 1,242 | 1,385 | - | 1,385 | |
| Other receivables, including derivatives | A, B | 123 | - | 123 | (50) | 73 | 133 | (37) | 96 | |
| Inventory | | 131 | - | 131 | - | 131 | 245 | - | 245 | |
| T o t a l c u r r e n t assets | | 1,552 | - | 1,552 | (50) | 1,502 | 2,674 | (37) | 2,637 | |
| Long-term receivables | C | 526 | - | 526 | 21 | 547 | 545 | 30 | 575 | |
| Property, plant and equipment, net | C, D | 2,390 | 165 | * 2,555 | (23) | 2,532 | 2,368 | (33) | 2,335 | |

| | | | | | | | | | |
|------------------------------|---|-------|-----|---------|------|-------|-------|------|-------|
| Intangible assets, net | D | 458 | 237 | 695 | - | 695 | 685 | - | 685 |
| T o t a l non-current assets | | 3,374 | 402 | 3,776 | (2) | 3,774 | 3,598 | (3) | 3,595 |
| Total assets | | 4,926 | 402 | * 5,328 | (52) | 5,276 | 6,272 | (40) | 6,232 |

*Includes accumulative effect as of the adoption of Standard No. 27 regarding asset retirement obligations, net effect of NIS 5 million, see Note 2U(2) of the Company's annual financial statements as at December 31, 2007

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

Reconciliation of equity (cont'd)

| | | January 1, 2007 | | | December 31, 2007 | | | | |
|--|------|---|---|-------------------------|---|-------------------------------|--------------|--------------|-------------------------|
| | | Israeli GAAP as reported prior the adoption of new Israeli accounting standards in 2007 | Effects reflected upon the adoption of new Israeli accounting standards in 2007 | Effect of applying IFRS | Israeli GAAP as reported after the adoption of new Israeli accounting standards in 2007 | Other effect of applying IFRS | IFRS | Israeli GAAP | Effect of applying IFRS |
| | Note | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions | NIS millions |
| Current liabilities | | | | | | | | | |
| Short-term credit | | - | - | - | - | - | 353 | - | 353 |
| Trade payables and accrued expenses | F | 819 | - | 819 | (44) | 775 | 1,007 | (54) | 953 |
| Current tax liabilities | E | - | - | - | 117 | 117 | - | 122 | 122 |
| Provisions | F | - | - | - | 81 | 81 | - | 91 | 91 |
| Other current liabilities, including derivatives | E, F | 496 | - | 496 | (154) | 342 | 543 | (159) | 384 |
| Total current liabilities | | 1,315 | - | 1,315 | - | 1,315 | 1,903 | - | 1,903 |
| Long-term loans from banks | | 1,208 | - | 1,208 | - | 1,208 | 343 | - | 343 |
| Debentures | | 1,989 | - | 1,989 | - | 1,989 | 2,983 | - | 2,983 |
| Provisions | D | 2 | 12 | * 14 | (12) | 2 | 17 | (14) | 3 |

Other
long-term
liabilities

| | | | | | | | | | |
|---|------------------------|-------|-----|-------|------|-------|-------|-------|-------|
| Deferred taxes | A, B, D, G | 105 | 105 | * 210 | (57) | 153 | 196 | (47) | 149 |
| Total non-current liabilities | | 3,304 | 117 | 3,421 | (57) | 3,364 | 3,539 | (47) | 3,492 |
| Total liabilities | | 4,619 | 117 | 4,736 | (57) | 4,679 | 5,442 | (47) | 5,395 |
| Shareholders equity | | | | | | | | | |
| Share capital | | 1 | - | 1 | - | 1 | 1 | - | 1 |
| Capital reserves | H | (24) | - | (24) | - | (24) | (4) | (29) | (33) |
| Cash dividend declared subsequent to the balance sheet date | J | - | - | - | - | - | 700 | (700) | - |
| Retained earnings | A, C, D, H, J | 330 | 285 | * 615 | 5 | 620 | 133 | 736 | 869 |
| Total shareholders' equity | | 307 | 285 | 592 | 5 | 597 | 830 | 7 | 837 |
| Total liabilities and shareholders' equity | | 4,926 | 402 | 5,328 | (52) | 5,276 | 6,272 | (40) | 6,232 |

* Includes accumulative effect as of the adoption of Standard No. 27 regarding asset retirement obligations, net effect of NIS 5 million, see Note 2U(2) of the Company's annual financial statements as at December 31, 2007

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

Reconciliation of equity (cont'd)

| | | September 30, 2007 | | |
|---|-------------|-----------------------------|-----------------------|--------------|
| | | | Effect of applying | |
| | | Israeli GAAP | IFRS | IFRS |
| | Note | NIS millions (Unaudited) | | |
| Current assets | | | | |
| Cash and cash equivalents | | 522 | - | 522 |
| Trade receivables | | 1,356 | - | 1,356 |
| Other receivables, including derivatives | A, B | 106 | (37) | 69 |
| Inventory | | 145 | - | 145 |
| Total current assets | | 2,129 | (37) | 2,092 |
| Long-term receivables | C | 511 | 21 | 532 |
| Property, plant and equipment, net | C, D | 2,345 | (23) | 2,322 |
| Intangible assets, net | D | 657 | - | 657 |
| Total non-current assets | | 3,513 | (2) | 3,511 |
| Total assets | | 5,642 | (39) | 5,603 |
| Current liabilities | | | | |
| Short-term credit | | 238 | - | 238 |
| Trade payables and accrued expenses | F | 787 | (45) | 742 |
| Current tax liabilities | E | - | 122 | 122 |
| Provisions | F | - | 82 | 82 |
| Other current liabilities including derivatives | E, F | 524 | (159) | 365 |
| Total current liabilities | | 1,549 | - | 1,549 |
| Long-term loans from banks | | 938 | - | 938 |
| Debentures | | 2,039 | - | 2,039 |
| Provisions | | - | 13 | 13 |
| Other long-term liabilities | D | 16 | (13) | 3 |
| | A, B, D, | | | |
| Deferred taxes | G | 191 | (45) | 146 |
| Total non-current liabilities | | 3,184 | (45) | 3,139 |
| Total liabilities | | 4,733 | (45) | 4,688 |

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| | | | | |
|---|------------------|-------|-------|-------|
| Shareholders equity | | | | |
| Share capital | | 1 | - | 1 |
| Capital reserves | H | 2 | (25) | (23) |
| Cash dividend declared subsequent to the balance sheet date | J | 256 | (256) | - |
| Retained earnings | A, C, D, H, J | 650 | 287 | 937 |
| Total shareholders' equity | | 909 | 6 | 915 |
| Total liabilities and shareholders' equity | | 5,642 | (39) | 5,603 |

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

Adjustment of the earnings

| | Note | Year ended December 31, 2007 | | |
|-------------------------------------|------|------------------------------|--|-------|
| | | Israeli GAAP | Effect of applying IFRS NIS millions (Audited) | IFRS |
| Revenues | | 6,050 | - | 6,050 |
| Cost of revenues | A | 3,372 | 5 | 3,377 |
| Gross profit | | 2,678 | (5) | 2,673 |
| Selling and marketing expenses | | 685 | - | 685 |
| General and administrative expenses | C | 652 | 1 | 653 |
| Other expenses (income), net | K | - | 3 | 3 |
| Operating income | | 1,341 | (9) | 1,332 |
| Financing expenses | | (287) | - | (287) |
| Financing income | A | 131 | 9 | 140 |
| Financing costs, net | | (156) | 9 | (147) |
| Other expenses (income), net | K | 3 | (3) | - |
| Income before income tax | | 1,182 | 3 | 1,185 |
| Income tax | A | 309 | 1 | 310 |
| Net income | | 873 | 2 | 875 |
| Earnings per share | | | | |
| Basic earnings per share (in NIS) | | 8.95 | 0.02 | 8.97 |
| Diluted earnings per share (in NIS) | | 8.87 | 0.02 | 8.89 |

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

Adjustment of the earnings

| | Note | Nine- month period ended September 30, 2007 | | | Three- month period ended September 30, 2007 | | |
|--|------|--|--|-------|---|--|-------|
| | | Israeli GAAP | Effect of applying IFRS NIS millions (Unaudited) | IFRS | Israeli GAAP | Effect of applying IFRS NIS millions (Unaudited) | IFRS |
| Revenues | | 4,466 | - | 4,466 | 1,572 | - | 1,572 |
| Cost of revenues | A | 2,414 | 3 | 2,417 | 846 | 1 | 847 |
| Gross profit | | 2,052 | (3) | 2,049 | 726 | (1) | 725 |
| Selling and marketing expenses | | 506 | - | 506 | 193 | - | 193 |
| General and administrative expenses | | 488 | - | 488 | 167 | - | 167 |
| Other expenses (income), net | K | - | 2 | 2 | - | 2 | 2 |
| Operating income | | 1,058 | (5) | 1,053 | 366 | (3) | 363 |
| Financing expenses | | (191) | - | (191) | (97) | - | (97) |
| Financing income | A | 54 | 5 | 59 | 22 | 4 | 26 |
| Financing costs, net | | (137) | 5 | (132) | (75) | 4 | (71) |
| Other expenses (income), net | K | 2 | (2) | - | 2 | (2) | - |
| Income before income tax | | 919 | 2 | 921 | 289 | 3 | 292 |
| Income tax | | 229 | 1 | 230 | 19 | 2 | 21 |
| Net income | | 690 | 1 | 691 | 270 | 1 | 271 |
| Earnings per share | | | | | | | |
| Basic earnings per share (in NIS) | | 7.08 | 0.01 | 7.09 | 2.77 | 0.01 | 2.78 |
| Diluted earnings per share (in NIS) | | 7.02 | 0.01 | 7.03 | 2.74 | 0.01 | 2.75 |

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

- A. In accordance with Israeli GAAP, no separation of embedded derivatives is required, as is required in accordance with IFRS. The effect of applying IFRS as at January 1, 2007 and as at September 30, 2007, includes an increase in other receivables in the amount of NIS 10 million and NIS 11 million, respectively, an increase in deferred tax liabilities in the amount of NIS 3 million and NIS 3 million, respectively, and an increase in retained earnings in the amount of NIS 7 million and NIS 8 million, respectively (net of tax). The effect of applying IFRS as at December 31, 2007 includes an increase in other receivables in the amount of NIS 14 million, an increase in deferred tax liabilities in the amount of NIS 4 million and an increase in retained earnings in the amount of NIS 10 million (net of tax). In addition, the cost of revenues increased in the amount of NIS 3 million, NIS 1 million and NIS 5 million, for the periods of nine and three months ended September 30, 2007 and the year ended December 31, 2007, respectively. Financing income increased in the amount of NIS 5 million, NIS 4 million and NIS 9 million, for the periods of nine and three months ended September 30, 2007 and the year ended December 31, 2007, respectively. Tax expenses increased in the amount of NIS 1 million, NIS 2 million and NIS 1 million, for the periods of nine and three months ended September 30, 2007 and the year ended December 31, 2007, respectively.
- B. In accordance with Israeli GAAP, deferred tax assets or liabilities were classified as current assets or current liabilities and non-current assets or non-current liabilities according to the classification of the assets or liabilities for which they were created. In accordance with IFRS, deferred tax assets are classified as non-current assets or non-current liabilities even if it is anticipated that they will be realized in the short term. Therefore, upon applying IFRS, short-term deferred tax assets as at January 1, 2007, September 30, 2007 and December 31, 2007 in the amount of NIS 60 million, NIS 48 million and NIS 51 million, respectively, were reclassified from the item of other receivables under current assets to the item of deferred tax liabilities under non-current liabilities.
- C. In accordance with Israeli GAAP, lands leased from the Israel Lands Administration ("ILA") are classified as property, plant and equipment and are not depreciated. In accordance with IFRS, when these lands are not considered owned by the Company, the lease payments are classified as long-term receivables and are amortized over the lease period, including the optional extension period if on the date of signing the lease agreement it was reasonably certain that the option will be exercised. Accordingly, as at January 1, 2007 and as at September 30, 2007, the Company recorded an increase in long-term receivables in the amount of NIS 21 million, a decrease in property, plant and equipment in the amount of NIS 23 million, and a decrease in retained earnings in the amount of NIS 2 million. As at December 31, 2007 the Company recorded an increase in long-term receivables in the amount of NIS 30 million, a decrease in property, plant and equipment in the amount of NIS 33 million, and a decrease in retained earnings in the amount of NIS 3 million. The amortization of lease payments was reflected in an increase in amortization expense in the amount of NIS 1 million for the year ended December 31, 2007.
- D. See notes 2(U)2 and 2(U)4 of the Company's annual financial statements as at December 31, 2007 regarding the adoption of Standard No. 27 and Standard No. 30 respectively.
- E. In accordance with Israeli GAAP, current taxation liabilities were classified as other current liabilities. In accordance with IFRS, current taxation liabilities are presented as a separate item in current liabilities. Therefore, upon applying IFRS, current taxation liabilities as at January 1, 2007, September 30, 2007 and December 31, 2007 in the amount of NIS 117 million, NIS 122 million and NIS 122 million, respectively, were reclassified from the item of other current liabilities under current liabilities to the item of current taxation liabilities under current liabilities.

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

F. In accordance with Israeli GAAP, current and non-current provisions were classified as trade payables and accrued expenses, other current liabilities, or other long-term liabilities, according to the origin of the provision. In accordance with IFRS, current provisions are presented as a separate item in current liabilities. Therefore, upon applying IFRS, as at January 1, 2007, September 30, 2007, and December 31, 2007: trade payables and accrued expenses decreased in the amount of NIS 44 million, NIS 45 million, and NIS 54 million, respectively; other current liabilities including derivatives decreased in the amount of NIS 37 million, NIS 37 million, and NIS 37 million, respectively; and current provisions increased in the amount of NIS 81 million, NIS 82 million, and NIS 91 million, respectively. In addition, in accordance with IFRS, non-current provisions are presented as a separate item in non-current liabilities. Therefore, upon applying IFRS, as at January 1, 2007, September 30, 2007, and December 31, 2007, non-current provisions increased and other long-term liabilities decreased in the amount of NIS 12 million, NIS 13 million, and NIS 14 million, respectively.

G. The deferred tax liability as presented hereunder has changed based on the aforementioned changes. The changes in the deferred taxes were calculated on the basis of tax rates that are expected to be in effect when the temporary differences reverse:

| | | January 1 2007 NIS millions | September 30 2007 NIS millions | December 31 2007 NIS millions |
|------------------------------------|------|--------------------------------------|--|---|
| | Note | | | |
| Property, plant and equipment, net | D | 105 | - | - |
| Other receivables | A | 3 | 3 | 4 |
| Deferred tax liabilities | B | (60) | (48) | (51) |
| | | 48 | (45) | (47) |

H. In accordance with Israeli GAAP, expenses recognized regarding share-based payment transactions were recorded against a capital reserve in the shareholders' equity. In accordance with IFRS, and on the basis of the accounting policy applied by the Company, the Company has reclassified this capital reserve to the retained earnings. Accordingly, the balance of the capital reserve decreased as of September 30, 2007 and December 31, 2007 in the amount of NIS 25 million and NIS 29 million, and the retained earnings increased in the amount of NIS 25 million and NIS 29 million, respectively.

I. The effect of the aforementioned adjustments (net of tax) on the retained earnings:

| | | January 1 2007 NIS millions | September 30 2007 NIS millions | December 31 2007 NIS millions |
|------------------------------------|------|--------------------------------------|--|---|
| | Note | | | |
| Property, plant and equipment, net | D | 285 | - | - |

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| | | | | |
|--|---|-----|-----|-----|
| Other receivables | A | 7 | 8 | 10 |
| Lands leased from the ILA | C | (2) | (2) | (3) |
| Classification of surplus resulting from share base payment | H | - | 25 | 29 |
| Dividend declared subsequent to balance sheet date | J | - | 256 | 700 |
| | | 290 | 287 | 736 |

Notes to the Financial Statements (cont'd)

Note 10 - Explanation of transition to IFRSs (cont'd)

J. In accordance with Israeli GAAP, a dividend declared subsequent to the balance sheet date and before the approval date of the financial statements was appropriated within shareholders' equity as a separate item "Dividend declared subsequent to balance sheet date" against a decrease in retained earnings. In accordance with IFRS, such a dividend only requires disclosure and does not require any equity reclassification. Accordingly, as at September 30, 2007, and December 31, 2007 the balance of retained earnings increased and the dividend declared subsequent to the balance sheet date that is presented in shareholders' equity decreased by the amount of NIS 256 million and NIS 700 million, respectively.

K. In accordance with Israeli GAAP, gains and losses from the sale of property, plant and equipment net and other income / expenses were not included in operating income. In accordance with IFRS, these items are included in operating income. The effect of applying IFRS for the nine and three month periods ended September 30, 2007, and the year ended December 31, 2007, is reflected in a reclassification of these items to the operating income, in the amount of expenses of NIS 2 million, NIS 2 million and NIS 3 million, respectively.

L. Explanation of material adjustments to the cash flow statements:

1. Interest of NIS 9 million, NIS 5 million and NIS 23 million received from investments during the nine and three months ended September 30, 2007 and the year ended December 31, 2007, respectively, is classified as investing cash flows under IFRSs, but was included in operating cash flows under Israeli GAAP.
2. Interest of NIS 165 million, NIS 47 million and NIS 177 million paid during the nine and three months ended September 30, 2007 and the year ended December 31, 2007, respectively, is classified as financing cash flows under IFRSs, but was included in operating cash flows under Israeli GAAP.
3. Payments for fixed asset hedging contracts, in accordance with hedge accounting, in the amount of NIS 9 million, NIS 1 million, and NIS 12 million, during the nine and three months ended September 30, 2007, and the year ended December 31, 2007, respectively, are classified as investing cash flows under IFRSs, but were included in operating cash flows under Israeli GAAP.
4. Payments for inventory hedging contracts, in accordance with hedge accounting, in the amount of NIS 18 million, NIS 2 million, and NIS 24 million, during the nine and three months ended September 30, 2007, and the year ended December 31, 2007, respectively, are presented as a separate line in operating cash flows under IFRSs, but were presented as changes in operating assets and liabilities under Israeli GAAP.
5. Payments for derivative contracts, net, in the amount of NIS 21 million, NIS 6 million, and NIS 26 million, during the nine and three months ended September 30, 2007, and the year ended December 31, 2007, respectively, are presented as a separate line in operating cash flows under IFRSs, but were presented as changes in operating assets and liabilities under Israeli GAAP.

There are no other material differences between the cash flow statement presented under IFRSs and cash flow statement presented under Israeli GAAP.

Signatures

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

CELLCOM ISRAEL LTD.

Date: November 10, 2008

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