

AnorMED Inc.
Form SC14D9C
September 29, 2006

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

**SCHEDULE 14D-9
SOLICITATION/RECOMMENDATION STATEMENT UNDER
SECTION 14(d)(4) OF THE SECURITIES EXCHANGE ACT OF 1934
(Amendment No. ___)**

AnorMED Inc.

(Name of Subject Company)

AnorMED Inc.

(Name of Persons Filing Statement)

Common Shares

(Title of Class of Securities)

035910108

(CUSIP Number of Class of Securities)

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Vice President, Finance, Chief Financial Officer,

Secretary and Treasurer

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Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

SUPPORT AGREEMENT
between
ANORMED INC.
and
MILLENNIUM PHARMACEUTICALS, INC.
Dated as of September 26, 2006

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SUPPORT AGREEMENT

THIS AGREEMENT made as of the 26th day of September, 2006

BETWEEN:

MILLENNIUM PHARMACEUTICALS, INC., a corporation incorporated under the laws of the State of Delaware (the **Parent**)

AND:

ANORMED INC., a corporation incorporated under the federal laws of Canada (the **Company**).

WHEREAS:

- A. The Parent directly or indirectly through a wholly-owned company to be designated by Parent after the date hereof (the **Acquisition Company**), desires to acquire all of the outstanding common shares of the Company and all rights attached or appurtenant thereto (the **Shares**), including all Shares issuable on the exercise of the outstanding stock options (the **Options**) granted pursuant to the Company's Stock Option Plans prior to the date hereof, and is prepared to make an offer to acquire such Shares;
- B. Contemporaneously herewith, the Parent has entered into agreements (the **Shareholder Support Agreements**) with the Supporting Shareholders pursuant to which, among other things, each of the Supporting Shareholders has agreed to irrevocably tender of the Shares held or hereafter acquired by them (or that they are now entitled to acquire) and to support the Offer; and
- C. The board of directors of the Company (the **Board of Directors**), after consulting with its financial and outside legal advisors, has unanimously determined that it would be in the best interests of the Company for the Board of Directors to support the Offer and that it will recommend acceptance of the Offer to holders of Shares (the **Shareholders**), all on the terms and subject to the conditions contained herein;

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party, the parties hereby covenant and agree as follows:

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following terms have the meanings set forth below.

- (a) **Acquisition Company** an indirect wholly-owned subsidiary of the Parent.
- (b) **Affiliate** has the meaning ascribed to that term in the CBCA.
- (c) **Agreement, this Agreement, herein, hereto, and hereof** and similar expressions refer to this Agreement and any amendments or supplements thereto, the same may be amended or supplemented from time to time and, where applicable, to the appropriate Schedules to this Agreement.
- (d) **Alternative Transaction** means (other than by the Offeror or its Affiliates and except for the transactions contemplated hereby): (i) any merger, formal take-over bid or tender offer made by way of take-over bid circular, amalgamation, plan of arrangement, business combination, reorganization, recapitalization, consolidation, issuer bid, liquidation or winding-up in respect of the Company or any of its Subsidiaries; (ii) any sale of assets of the Company or any of its Subsidiaries having an aggregate value equal to 20% or more of the fair market value of the Company and its Subsidiaries' assets on a consolidated basis, or any license, strategic alliance, lease, supply agreement or other arrangement having a similar economic effect; (iii) any transaction to which the Company is a party which would result in any Person owning or controlling or having the right to acquire 20% or more of the Shares; (iv) any transaction similar to the foregoing clauses (ii) or (iii) of or involving the Company or any of its Subsidiaries; or (v) any written proposal or offer to do, or public announcement of an intention to do, any of the foregoing with or from any Person.
- (e) **Benefit Plans** means all bonus, deferred compensation, pension, profit sharing, retirement, retention, severance, stock option, group insurance, death benefit, welfare or other benefit plan or written policy for the benefit of any of the Employees or former Employees, excluding statutory benefit plans to which the Company or a Subsidiary are required to participate in or comply with, including the Canada Pension Plan and plans administered pursuant to applicable health tax, workplace safety insurance and employment insurance legislation.
- (f) **Bid Circular** has the meaning set forth in Section 2.1(b).
- (g) **Board of Directors** means the board of directors of the Company.
- (h) **Business Day** means any day excepting a Saturday, Sunday or statutory holiday in Vancouver, British Columbia or Boston, Massachusetts.

- (i) **Canadian Tax Act** means the *Income Tax Act* (Canada).
- (j) **CBCA** means the *Canada Business Corporations Act*.
- (k) **Claims** includes claims, demands, complaints, grievances, actions, applications, suits, causes of action, orders, charges, indictments, prosecutions, informations or other similar processes, assessments or reassessments, judgments, debts, liabilities, expenses, costs, damages or losses, contingent or otherwise, including loss of value, professional fees, including fees and disbursements of legal counsel on a full indemnity basis, and all costs incurred in investigating or pursuing any of the foregoing or any proceeding relating to any of the foregoing.
- (l) **Commercialization** means the marketing, sale, licensing, export, and other commercialization of the drug products or candidates that are sold or manufactured by the Company or its Subsidiaries or that are the subject of studies, tests or preclinical or clinical trials by or on behalf of the Company or its Subsidiaries.
- (m) **Commercially Available Technology** means computer software and other Technology that is currently licensed for use by the Company and/or its Subsidiaries on standard terms for the business of the Company and its Subsidiaries as currently conducted and that is otherwise readily available for license, in the current license volume or configuration.
- (n) **Company** means AnorMED Inc., a corporation incorporated under the CBCA.
- (o) **Company Disclosure Letter** means the letter dated the date of this Agreement from the Company delivered to the Offeror concurrently with the execution and delivery of this Agreement.
- (p) **Company Governing Documents** means the articles of incorporation and by-laws of the Company and, where applicable, the certificates, articles and by-laws of its Subsidiaries.
- (q) **Confidentiality Agreement** means the confidentiality agreement dated September 5, 2006 between the Company and the Parent.
- (r) **Contract** means any contract, agreement, commitment, undertaking, lease, licence, note, bond, mortgage, indenture, loan or deed of trust to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound.
- (s) **Data Room Information** means the documents listed in the index attached to the Company Disclosure Letter; provided, that all such documents shall have been provided or made available to the Parent and its representatives prior to 4:00 p.m. (Vancouver time) on September 25, 2006.

- (t) **Diluted Basis** means, with respect to the number of outstanding Shares at any time, such number of outstanding Shares calculated assuming that all outstanding Options and other rights to purchase Shares in consideration of payment of an exercise price which is less than the price to be paid under the Offer are exercised and all other such rights are cancelled.
- (u) **Directors Circular** has the meaning set forth in Section 2.2(j).
- (v) **Effective Time** means the time that the Offeror shall have taken-up, acquired ownership of and paid for at least the Minimum Required Shares pursuant to the terms of the Offer.
- (w) **Employees** means all Persons employed or retained by the Company or any of its Subsidiaries on a full-time, part-time or temporary basis including, without limitation, all members of the Board of Directors, officers, Persons on disability leave, parental leave or other absence from work.
- (x) **Encumbrances** means any pledge, lien, priority, security interest, lease, license, title retention agreement, restriction, easement, right-of-way, right of first refusal, title defect, option, adverse claim or encumbrance of any kind or character whatsoever.
- (y) **Environmental Laws** has the meaning set forth in Section 28 of Schedule C.
- (z) **ESPP** means the Company's Employee and Director Share Purchase Plan dated September 1, 1998, as amended and restated as of June 12, 2003.
- (aa) **Exchange Act** means the U.S. Securities Exchange Act of 1934, as amended.
- (bb) **Expiry Time** has the meaning set forth in Section 2.1(b).
- (cc) **Fairness Opinion** means the written opinion of the Company's Financial Advisor, to be referenced in and appended to the Directors Circular, to the effect that the Offer is fair from a financial point of view to the Shareholders.
- (dd) **FDA** means the United States Food and Drug Administration.
- (ee) **Financial Advisor** means Goldman, Sachs & Co., the financial advisor to the Company.
- (ff) **Financial Statements** means the audited consolidated financial statements of the Company and its Subsidiaries for the financial years ended as at March 31, 2006, March 31, 2005 and March 31, 2004, and the unaudited consolidated financial statements of the Company and its Subsidiaries for the three months ended and as at June 30, 2006 including, without limitation, the notes thereto, in each case in the form in which the Company filed them under applicable Securities Laws.

- (gg) **Governmental Authority** means any regulatory authority, government or government department or agency, commission, ministry, office, tribunal, Crown corporation or any other entity with the power to establish laws having jurisdiction or claiming to have jurisdiction on behalf of any nation, province, territory, state, municipality or other geographic or other subdivision thereof.
- (hh) **Information Technology** means computer hardware, software, websites for the Company or any of its Subsidiaries and databases owned or used by the Company or any of its Subsidiaries for the business of the Company and its Subsidiaries as currently conducted.
- (ii) **Initial Expiry Time** has the meaning set forth in Section 2.1(b).
- (jj) **Intellectual Property** means intellectual property rights, whether registered or not, including:
- (i) inventions, pending patent applications (including divisionals, reissues, renewals, re-examinations, continuations, continuations-in-part and extensions) and issued patents (including statutory extensions and supplemental protection certificates thereof);
 - (ii) trade-marks, trade dress, trade-names, business names and other indicia of origin;
 - (iii) copyrights, including copyright registrations and applications; and
 - (iv) industrial designs and similar rights, that are owned or used by the Company or any of its Subsidiaries for the business of the Company and its Subsidiaries as currently conducted or that are otherwise necessary for the Commercialization.
- (kk) **Interested Person** has the meaning set forth in Section 22 of Schedule C.
- (ll) **Laws** means all applicable laws, by-laws, rules, regulations, orders, codes, policies, notices and directions and judicial, arbitral, administrative, ministerial or departmental judgments, awards, or other requirements of any governmental, regulatory, court or other authority having jurisdiction over the applicable party.
- (mm) **Latest Mailing Time** has the meaning set forth in Section 2.1(b).
- (nn) **Leased Real Property** has the meaning set forth in Section 25 of Schedule C.
- (oo) **material** means, with respect to the Company and its Subsidiaries, taken as a whole, a fact, asset, liability, transaction or circumstance, as applicable, concerning the business, assets, rights, liabilities, capitalization, operations or financial condition of the Company and its Subsidiaries, taken as a whole, that would or would likely (i) result in a Material Adverse Change or (ii) prevent or

materially interfere with the consummation of the transactions contemplated hereby.

- (pp) **Material Adverse Change** means any change, effect, event or occurrence in or on the business, operations, results of operations, assets, liabilities, obligations (whether absolute, accrued, conditional, contingent or otherwise), or condition (financial or otherwise) of the Company (on a consolidated basis) which is, or could likely be expected to be, material and adverse to the Company (on a consolidated basis) other than a change, effect, event or occurrence relating to:
- (i) the Canadian, United States or international political, economic or financial conditions in general;
 - (ii) the state of Canadian, United States or international securities or currency exchange markets in general;
 - (iii) the industry in which the Company and its Subsidiaries operate;
 - (iv) changes in Laws or interpretations thereof by any Governmental Authority;
 - (v) changes in accounting requirements not specifically directed at the Company;
 - (vi) the announcement of the transactions contemplated by this Agreement or other communication by Parent or Acquisition Company of its plans or intentions with respect to any of the businesses of the Company or any of its Subsidiaries;
 - (vii) the consummation of the transactions contemplated by this Agreement or any actions taken pursuant to this Agreement;
 - (viii) any delay or disruption to the ordinary course of the Company's business occasioned by the announcement or implementation of the transactions contemplated by this Agreement;
 - (ix) any natural disaster or any acts of terrorism, sabotage, military action or war (whether or not declared) or any escalation or worsening thereof;
 - (x) any change in the market price or trading volume of the Shares;
 - (xi) any matter, either alone or in combination with other matters, that has been disclosed in the Company Reports;
 - (xii) any suspension, rejection, refusal of or request to refile any regulatory application or filing, other than with respect to the Company's Mozobil product candidate,

- (xiii) any other negative actions, requests, recommendations or decisions of the FDA, Health Canada or similar Governmental Authority, other than with respect to the Company's Mozobil product candidate, which would materially and adversely cause a delay in the development of such product candidate;
- (xiv) any change, effect, event or occurrence relating to the Company's clinical trials or studies, other than a halt, hold, cessation or termination (prior to completion) of either of the Company's two Phase III clinical trials concerning the Company's Mozobil product candidate or;
- (xv) any change, effect, event or occurrence relating to the products, product candidates, clinical trials or studies of any other Person;
- (xvi) safety findings with respect to a therapeutic agent other than safety reports or findings associating a fatal or severe serious adverse event with Mozobil, not previously detected or a significant increase in the rate of any previously seen fatal or serious severe adverse event with Mozobil and which, in either case, would have a materially negative impact on the label for Mozobil once approved;

For greater certainty, Material Adverse Change shall be deemed to include without limitation (a) a halt, hold, cessation or termination (prior to completion) of either of the Company's two Phase III clinical trials concerning the Company's Mozobil product candidate, or (b) the suspension, rejection, refusal or request to refile of any regulatory application or filing with the FDA, Health Canada, any similar federal, state, provincial or other regulatory authority in any country with respect to the Company's Mozobil product candidate.

- (qq) **Material Adverse Effect** when used in connection with the Company, means any effect in or on the business, operations, results of operations, assets, liabilities, obligations (whether absolute, accrued, conditional, contingent or otherwise), or condition (financial or otherwise) of the Company (on a consolidated basis) which is, or could likely be expected to be, material and adverse to the Company (on a consolidated basis) other than a change, effect, event or occurrence relating to:
 - (i) the Canadian, United States or international political, economic or financial conditions in general;
 - (ii) the state of Canadian, United States or international securities or currency exchange markets in general;
 - (iii) the industry in which the Company and its Subsidiaries operate;
 - (iv) changes in Laws or interpretations thereof by any Governmental Authority;

- (v) changes in accounting requirements not specifically directed at the Company;
- (vi) the announcement of the transactions contemplated by this Agreement or other communication by Parent or Acquisition Company of its plans or intentions with respect to any of the businesses of the Company or any of its Subsidiaries;
- (vii) the consummation of the transactions contemplated by this Agreement or any actions taken pursuant to this Agreement;
- (viii) any delay or disruption to the ordinary course of the Company's business occasioned by the announcement or implementation of the transactions contemplated by this Agreement;
- (ix) any natural disaster or any acts of terrorism, sabotage, military action or war (whether or not declared) or any escalation or worsening thereof;
- (x) any change in the market price or trading volume of the Shares;
- (xi) any matter, either alone or in combination with other matters, that has been disclosed in the Company Reports;
- (xii) any suspension, rejection, refusal of or request to refile any regulatory application or filing, other than with respect to the Company's Mozobil product candidate,
- (xiii) any other negative actions, requests, recommendations or decisions of the FDA, Health Canada or similar Governmental Authority, other than with respect to the Company's Mozobil product candidate, which would materially and adversely cause a delay in the development of such product candidate;
- (xiv) any change, effect, event or occurrence relating to the Company's clinical trials or studies, other than a halt, hold, cessation or termination (prior to completion) of either of the Company's two Phase III clinical trials concerning the Company's Mozobil product candidate or;
- (xv) any change, effect, event or occurrence relating to the products, product candidates, clinical trials or studies of any other Person;
- (xvi) safety findings with respect to a therapeutic agent other than safety reports or findings associating a fatal or severe serious adverse event with Mozobil, not previously detected or a significant increase in the rate of any previously seen fatal or serious severe adverse event with Mozobil and which, in either case, would have a materially negative impact on the label for Mozobil once approved;

For greater certainty, Material Adverse Effect shall be deemed to include without limitation (a) a halt, hold, cessation or termination (prior to completion) of either of the Company's two Phase III clinical trials concerning the Company's Mozobil product candidate, or (b) the suspension, rejection, refusal or request to refile of any regulatory application or filing with the FDA, Health Canada, any similar federal, state, provincial or other regulatory authority in any country with respect to the Company's Mozobil product candidate.

- (rr) **Material Company Intellectual Property** has the meaning set forth in Section 24 of Schedule C.
- (ss) **Material Company Technology** means all Technology, other than Commercially Available Technology, that is used by and material to the business of the Company and its Subsidiaries as currently conducted including, without limitation, the Commercialization.
- (tt) **Material Contract** means:
- (i) each Contract identified in the Data Room Information as a Material Contract;
 - (ii) any lease of real property by the Company or any of its Subsidiaries, as tenant, with third parties providing for payment of annual rents in excess of \$250,000;
 - (iii) any shareholder agreement, voting trust or right to require registration under any applicable Securities Laws to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;
 - (iv) any Contract under which an obligation to pay amounts in excess of \$1,000,000 is outstanding or may be incurred;
 - (v) any Contract providing for the sale or exchange of, or option to sell or exchange, any property or asset where the sale price or agreed value (or, where the Contract does not specify a sale price or agreed value for the property or asset expressed in terms of money, the fair market value) of such property or asset is in excess of \$250,000, or the purchase or exchange of, or option to purchase or exchange, any property or asset where the purchase price or agreed value (or, where the Contract does not specify a purchase price or agreed value for the property or asset expressed in terms of money, the fair market value) of such property or asset is in excess of \$250,000 entered into in the past 12 months (or entered into more than 12 months prior to the date hereof in respect of which the applicable transaction has not been consummated);
 - (vi) any Contract to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound: (A) granting or

obtaining any right to use any material Intellectual Property (other than any Contract granting rights to use readily available commercial software that is generally available on non-discriminatory pricing terms) or (B) restricting the rights of the Company or any of its Subsidiaries, or permitting other persons, to use or register any material Intellectual Property, except any such Contract which, if terminated, would not reasonably be expected to result in a Material Adverse Change;

- (vii) any Contract that purports to limit the right of the Company or any of its Subsidiaries: (A) to engage in any line of business or (B) to compete with any person or operate in any location; and
- (viii) any Contract under which the Company or any of its Subsidiaries is obliged to make annual payments or incur annual obligations in excess of an aggregate of \$500,000 other than any Contract of the types referred to in clauses (i) through (vii) of this definition (without regard to the dollar amounts set forth in such clauses).
- (uu) **Minimum Condition** means the condition set forth in paragraph (a) of Schedule A.
- (vv) **Minimum Required Shares** means at least that number of the outstanding Shares required pursuant to the Minimum Condition unless the Offeror shall have varied the Minimum Condition in accordance with this Agreement, in which case **Minimum Required Shares** means that number of the outstanding Shares which the Offeror takes up on the Take-up Date.
- (ww) **NASDAQ** means NASDAQ Global Market.
- (xx) **Non-Completion Fee** has the meaning set forth in Section 6.2.
- (yy) **Offer** has the meaning set forth in Section 2.1(a).
- (zz) **Offer Deadline** has the meaning set forth in Section 8.1(b).
- (aaa) **Offeror** means the Parent, together with the Acquisition Company, if applicable.
- (bbb) **Officer Obligations** means the obligations or liabilities of the Company or any of its Subsidiaries to its directors or Senior Executives, employees and consultants for severance or termination payments in connection with the termination of their employment or service upon a change of control of the Company pursuant to any written employment agreements or otherwise, as set out in the Company Disclosure Letter.
- (ccc) **Optionholder** means a holder of Options.
- (ddd) **Options** has the meaning set forth in the recitals to this Agreement.

- (eee) **Owned Real Property** has the meaning set forth in Section 25 of Schedule C.
- (fff) **Parent** means Millennium Pharmaceuticals, Inc., a corporation incorporated under the laws of the State of Delaware.
- (ggg) **Permit** means any licence, permit, franchise, certificate, approval or similar authorization of or issued by any Governmental Authority and held by the Company or any of its Subsidiaries, including any federal, provincial or state licence.
- (hhh) **Person** means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, corporation, limited liability company, unlimited liability company, governmental, regulatory or court authority, and a natural person in such person's capacity as trustee, executor, administrator or other legal representative.
- (iii) **Pre-Acquisition Reorganization** has the meaning set forth in Section 6.5.
- (jjj) **Rights Plan** means the Shareholder Rights Plan Agreement dated effective August 29, 2006 between the Company and Computershare Investor Services Inc., as rights agent, as amended.
- (kkk) **Real Property** has the meaning set forth in Section 25 of Schedule C.
- (lll) **Real Property Leases** has the meaning set forth in Section 25 of Schedule C.
- (mmm) **Schedule 14D-9** means the Schedule 14D-9 required to be filed by the Company in connection with the Offer pursuant to the Exchange Act.
- (nnn) **Schedule TO** has the meaning set forth in Section 2.1(d).
- (ooo) **SEC** means the United States Securities and Exchange Commission.
- (ppp) **Securities Authorities** means the TSX, NASDAQ and the appropriate securities commissions or similar regulatory authorities in Canada and each of the provinces and territories thereof, the SEC and any applicable state securities regulatory authorities.
- (qqq) **Securities Laws** means the securities laws, rules and regulations of each of the provinces and territories of Canada and applicable federal and state securities laws of the United States.
- (rrr) **Senior Executives** means the Chief Executive Officer, President, Chairman, Chief Financial Officer, Chief Scientific Officer, Secretary, Treasurer, Vice-President Business Development and Vice-President Research, of the Company (in any case whether acting or interim).

- (sss) **Shares** has the meaning set forth in the recitals to this Agreement.
- (ttt) **Shareholder Support Agreements** has the meaning set forth in the recitals to this Agreement.
- (uuu) **Shareholders** has the meaning set forth in the recitals to this Agreement.
- (vvv) **Stock Option Plans** means the Company's 1996 Incentive Stock Option Plan, as amended, and 2006 Incentive Stock Option Plan, as amended.
- (www) **Subsequent Acquisition Transaction** has the meaning set forth in Section 2.8.
- (xxx) **Subsidiary** has the meaning set forth in the CBCA.
- (yyy) **Superior Proposal** means any *bona fide* written proposal for an Alternative Transaction (i) which, in the opinion of the Board of Directors, acting in good faith and after receiving the advice of its financial advisors and outside legal advisors, is reasonably capable of constituting a commercially feasible transaction taking into account all legal, financial, regulatory and other aspects of such proposal and the party making the proposal, for which adequate financial arrangements have been made to ensure that the required funds or other consideration will be available to effect payment in full for the Shares or otherwise complete such transaction and which could be carried out within a time frame that is reasonable in the circumstances, and which if consummated, would result in the Shareholders receiving a greater cash consideration per Share than contemplated by the Offer or, in the case of an Alternative Transaction including consideration other than cash, which is otherwise more favourable to Shareholders from a financial point of view than the Offer, and (ii) which did not result from a breach of Section 6.3 hereof,
- (zzz) **Supporting Shareholders** means, collectively, Baker Bros. Investments, L.P., Baker Bros. Investments II, L.P., Baker Biotech Fund I, L.P., 14159, L.P., Baker/Tisch Investments, L.P., Baker Brothers Life Sciences, L.P., and Kenneth Galbraith.
- (aaaa) **Take-up Date** means the date that the Offeror first takes up and acquires Shares pursuant to the Offer.
- (bbbb) **Tax Returns** means all returns, reports, declarations, elections, notices, filings, information returns and statements, including all amendments, schedules, attachments or supplements thereto, and whether in tangible, electronic or other form, filed or required to be filed in respect of Taxes.
- (cccc) **Taxes** means all taxes, duties, fees, premiums, assessments, levies and other fees of any kind whatsoever levied by any Governmental Authority or to be paid under any Laws (including, without limitation, income tax, goods and services tax, sales and excise tax, capital tax, tax deductions, property tax, corporate tax, customs duties and transfer fees, health, payroll and employment tax, withholding

tax, employment insurance or Canada pension plan contributions) and including any interest, penalties, fines, surtaxes or other additional amounts levied or imposed in respect thereof.

- (dddd) **Technical Information** means know-how and related technical knowledge, including:
- (i) trade secrets, confidential information and other proprietary know-how;
 - (ii) uniform resource locators, domain names and email addresses; and
 - (iii) documented research, forecasts, studies, marketing plans, market data, developmental, demonstration or engineering work, information that can be used to define a design or process or procure, produce, support or operate material and equipment, methods of production and procedures, all formulas and designs and drawings, blueprints, patterns, plans, flow charts, manuals and records, specifications, and test data, that is owned or used by the Company or any of its Subsidiaries for the business of the Company and its Subsidiaries as currently conducted or that are otherwise necessary for the Commercialization.
- (eeee) **Technology** means Intellectual Property, Technical Information and Information Technology.
- (ffff) **TSX** means the Toronto Stock Exchange.

1.2 Disclosure of Information

- (a) The phrase "as previously disclosed" and similar expressions used in this Agreement will be construed for all purposes of this Agreement as referring to information:
- (i) set forth in the Company Disclosure Letter;
 - (ii) included in the Data Room Information; or
 - (iii) filed publicly by the Company with the Securities Authorities.
- (b) Disclosure of information in the manner set out in Section 1.2(a) shall be deemed to be disclosure of such information for all purposes of this Agreement, whether or not such disclosure refers to one or more Articles, Sections or Schedules.

1.3 Knowledge

In this Agreement, whenever a representation or warranty is made on the basis of the knowledge or awareness of the Company, Parent or Acquisition Company, such knowledge or awareness consists only of the actual knowledge or awareness after due inquiry, as of the date of this

Agreement, in the case of the Company, of the Senior Executives, and in the case of the Offeror, of the senior officers of the Parent and the Acquisition Company, respectively, but does not include the knowledge or awareness of any other individual or any constructive, implied or imputed knowledge.

1.4 Singular, Plural, etc.

In this Agreement, words importing the singular number include the plural and vice versa and words importing gender include the masculine, feminine and neuter genders. Unless the context otherwise requires, any reference to a party herein is a reference to a party hereto. Any references to including or includes means including (or includes) without limitation .

1.5 Deemed Currency

Unless otherwise expressly stated, all references to dollars, \$ or currency herein shall mean U.S. currency.

1.6 Headings, etc.

The division of this Agreement into Articles, Sections and Schedules, the provision of a table of contents hereto and the insertion of the recitals and headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement and, unless otherwise stated, all references in this Agreement or in the Schedules hereto to Articles, Sections and Schedules refer to Articles, Sections and Schedules of and to this Agreement or of the Schedules in which such reference is made, as applicable.

1.7 Date for any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.8 Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

1.9 Attornment

The parties hereby irrevocably and unconditionally consent to and submit to the non-exclusive jurisdiction of the courts of the Province of British Columbia for any actions, suits or proceedings arising out of or relating to this Agreement or the matters contemplated hereby and further agree that service of any process, summons, notice or document by single registered mail to the addresses of the parties set forth in this Agreement shall be effective service of process for any action, suit or proceeding brought against either party in such court. The parties hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the matters contemplated hereby in the courts of the Province of British Columbia and hereby further irrevocably and unconditionally waive and

agree not to plead or claim in any such court that any such action, suit or proceeding so brought has been brought in an inconvenient forum.

1.10 Incorporation of Schedules

Each of the Schedules attached hereto and described below shall, for all purposes hereof, form an integral part of this Agreement.

Schedule A: Conditions to the Offer

Schedule B: Representations and Warranties of the Parent

Schedule C: Representations and Warranties of the Company

Schedule D: Form of Press Release

ARTICLE 2 THE OFFER

2.1 The Offer

- (a) Subject to the terms and conditions hereof, the Offeror agrees to make a take-over bid by way of a formal take-over bid circular to acquire all the issued and outstanding Shares (other than those owned directly or indirectly by the Offeror), including Shares issuable upon exercise of any Options outstanding on the date hereof, at a price per Share of \$12.00 in cash (as such offer may be extended or amended as permitted from time to time under this agreement, the **Offer**). The Offer shall only be subject to the conditions set forth in Schedule A hereto and shall be made in accordance with all applicable Laws, including Securities Laws, including, without limitation, Regulations 14D and 14E under the Exchange Act.
- (b) The Offer shall be made to the holders of Shares in accordance with applicable Laws, including Securities Laws, and shall be open for acceptance until a time or times that is not earlier than 5:00 p.m. (Vancouver time) on the 36th day after the date of the commencement of the bid, and no later than the 40th day after the date of the commencement of the bid, as determined under the *Securities Act* (British Columbia) (the time at which the Offer initially expires being referred to herein as the **Initial Expiry Time**), subject to the right of the Offeror, in its sole discretion, to extend, or further extend, the period during which Shares may be deposited under the Offer (the time at which the Offer, as it may be extended, expires being referred to herein as the **Expiry Time**). If at the Initial Expiry Time all of the conditions set forth in Schedule A hereto are satisfied except for the condition described in paragraph (b) of Schedule A, the Offeror shall extend the period during which Shares may be deposited under the Offer by an additional 15 calendar days after the Initial Expiry Time provided that the consents, approvals, decisions or other actions referred to in such paragraph can, in the reasonable opinion of the Offeror, be obtained within such additional 15 calendar day period. Any such extension shall comply with applicable Securities Laws, including, without limitation, Rule 14d-11 under the Exchange Act.

- (c) Provided that this Agreement has not otherwise been terminated, the Offeror shall mail the Offer and accompanying take-over bid circular (such circular, together with the Offer and any documents required to be sent along with or as part of the Offer, being referred to as the **Bid Circular**) prepared in the English language and French language in accordance with applicable Laws, including the Securities Laws, to each Shareholder and Optionholders as soon as reasonably practicable following the filing of the Schedule TO (as defined below) and, in any event, not later than 11:59 p.m. (Vancouver time) on October 6, 2006 (such time on such date being referred to herein as the **Latest Mailing Time**). However, if the mailing of the Bid Circular is delayed by reason of: (i) an injunction or order made by a court or regulatory authority of competent jurisdiction; (ii) the Offeror not having obtained any regulatory waiver, ruling or order which is necessary to permit the Offeror to make the Offer; (iii) the failure of the Company to provide the Offeror with a list of Shareholders and Optionholders as contemplated in Section 2.6, or (iv) any failure of a condition in Sections 2.2(b), 2.2(c) or 2.2(d) to be satisfied, written notice of such failure has been given by the Offeror, then, provided that such injunction or order is being contested or appealed, such regulatory waiver, ruling or order is being actively sought, such list of Shareholders or Optionholders is being actively sought or such failure of such condition to be rectified within five days following notice thereof, as applicable, then the Latest Mailing Time shall be extended for a period ending on the 5th Business Day following the date on which such injunction or order ceases to be in effect or such waiver, ruling or order is obtained, or such list of Shareholders and Optionholders is obtained, or such cure effected, as applicable. The Company and its advisors shall be given an opportunity to review and comment on the Bid Circular, and any supplements or amendments thereto, prior to its filing or printing, recognizing that whether or not such comments are appropriate will be determined by the Offeror, acting reasonably.
- (d) As soon as reasonably practicable on the date the Offer is commenced, the Offeror shall file with the SEC a Tender Offer Statement on Schedule TO (together with all amendments and supplements thereto, the **Schedule TO**) with respect to the Offer that will comply with the provisions of all applicable Securities Laws of the United States and will contain (including as exhibits) or incorporate by reference the Bid Circular.
- (e) The Offeror agrees to promptly correct the Bid Circular if and to the extent that it shall become false and misleading and to supplement the information contained therein to include any information that shall become necessary, in order to make the statement therein, in light of the circumstances under which they were made, not misleading, and the Offeror shall take all steps necessary to cause the Bid Circular, as so corrected or supplemented, to be filed with all applicable Securities Authorities and disseminated to the Shareholders and Optionholders, to the extent required under applicable Laws, including any Securities Laws. The Offeror agrees to amend the Schedule TO from time to time in accordance with the requirements of Regulation 14D under the Exchange Act. The Offeror shall provide the Company with copies of any written comments and telephone

notification of any oral comments that the Offeror or its counsel receive from any applicable Securities Authority with respect to the Bid Circular or Schedule TO promptly after receipt of such comments. The Offeror shall use its commercially reasonable efforts to respond to such comments promptly, shall provide the Company with a reasonable opportunity to participate in all communications with any applicable Securities Authority, including meetings and telephone conferences, relating to the Bid Circular or Schedule TO and shall provide the Company copies of any written responses and telephone notification of any verbal responses by the Offeror or its counsel in respect of such communications.

- (f) The Company acknowledges and agrees that the Offeror may, in its sole discretion, modify or waive any term or condition of the Offer, provided however, that the Offeror shall not, without the prior written consent of the Company: (i) vary or waive the Minimum Condition described in paragraph (a) of Schedule A hereto; (ii) decrease the consideration per Share; (iii) change the form of consideration payable under the Offer (other than to add additional consideration, whether in the form of cash or securities of the Parent or otherwise); (iv) decrease the number of Shares in respect of which the Offer is made; (v) impose additional conditions to the Offer; or (vi) or otherwise vary the Offer (or any terms or conditions thereof) in a manner which is adverse to Shareholders.
- (g) The Offeror agrees that, provided all of the conditions to the Offer set out in Schedule A shall have been satisfied or waived, the Offeror shall within the time periods required by applicable Laws take up and pay for all the Shares validly tendered (and not withdrawn) under the Offer and in any event not later than three Business Days following the time at which it becomes entitled to take up such Shares under the Offer pursuant to applicable Laws.

2.2 Conditions Precedent to Making of the Offer

The obligation of the Offeror to make the Offer is cond-RIGHT: 0pt" align="right">11.6%

	560
	502
Financing expenses, net	
	242
	219
	3.6%
	3.4%
	10.5%
	68
	62
Income before Income Tax	
	1,747
	1,564
	26.0%
	24.1%
	11.7%
	492
	440
Income Tax	
	427
	412
	6.4%
	6.3%
	3.6%
	120

Net Income	116
	1,320
	1,152
	19.6%
	17.8%
	14.6%
	372
	324
Free Cash Flow ₁	1,645
	1,518
	24.5%
	23.4%
	8.4%
	464
	428

Key Performance Indicators:

	2010	2009	% Change	2010	2009
	Million NIS			Million US\$ (convenience translation)	
EBITDA	2,667	2,529	5.5%	751	713
EBITDA, after elimination of one-time effects	2,718	2,544	6.8%	766	717
EBITDA, as percent of Revenues	40.0%	39.0%	2.6%		
EBITDA after elimination of one-time effects, as percent of Revenues	40.4%	39.2%	3.1%		
Subscribers at end of period (in thousands)	3,394	3,292	3.1%		
Churn Rate (in %)	20.5%	19.6%	4.6%		
Average Monthly MOU (in minutes)	335	331	1.2%		
Monthly ARPU (in NIS)	144	144	-	40.6	40.6

Financial Review

Revenues for 2010 increased 2.8% totaling NIS 6,662 million (\$1,877 million), compared to NIS 6,483 million (\$1,827 million) last year. Revenues for 2010 include a one-time provision for a refund to all our subscribers in a total amount of approximately NIS 66 million (\$19 million) related to a network malfunction we experienced in December 2010. After elimination of this one-time provision, our revenues for 2010 totaled NIS 6,728 million (\$1,896 million), a 3.8% increase. The increase in revenues is attributed to a 2.2% increase in service revenues, which reached NIS 5,860 million (\$1,651 million) in 2010, as compared to NIS 5,732 million (\$1,615 million) last year. The increase also resulted from a 6.8% increase in handset and accessories revenues, reaching NIS 802 million (\$226 million) in 2010 compared to NIS 751 million (\$212 million) in 2009.

The increase in service revenues in 2010 was mainly due to an increase of approximately 3.1% in our subscriber base, a 26% increase in revenues from content and value added services (including SMS), which totaled in 2010 NIS 1,112 million (\$313 million), representing approximately 19% of service revenues, compared to NIS 882 million (\$249 million), or 15.4% of service revenues in 2009, as well as a significant increase in revenues from land-line services and an increase in roaming revenues. These increases were partially offset by a decrease in revenues from domestic voice services, mainly due to the ongoing airtime price erosion, and by the one-time provision of approximately NIS 66 million.

The increase in handset and accessories revenues resulted from an increase in the average handset sale price, an increase in accessories sales, following the acquisition of Dynamica's operation, as well as an increase in the amount of modems and laptops sold during 2010 compared to 2009. These increases were partially offset by a decrease in the total amount of handsets sold during 2010 compared with 2009.

Revenues for the fourth quarter of 2010 increased 1.4% totaling NIS 1,662 million (\$468 million), or 5.4% totaling NIS 1,728 million (\$487 million) after elimination of a one-time provision for a refund to our subscribers, compared

to NIS 1,639 million (\$462 million) in the fourth quarter last year. The increase in revenues is attributed to a 16.1% increase in handset and accessories revenues, which

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rose from NIS 193 million (\$54 million) in the fourth quarter last year, to NIS 224 million (\$63 million) in the fourth quarter 2010. This increase was partially offset by a 0.6% decrease in service revenues, which totaled NIS 1,438 million (\$405 million) in the fourth quarter 2010 as compared to NIS 1,446 million (\$407 million) in the fourth quarter last year. After elimination of the one-time provision, service revenues for the fourth quarter of 2010 increased 4% to NIS 1,504 million (\$424 million).

The decrease in quarterly service revenues resulted mainly from the one-time provision of approximately NIS 66 million, as well as from the ongoing airtime price erosion. This decrease was partially offset by a 26.4% increase in content and value added services (including SMS) revenues in the fourth quarter 2010, compared to the fourth quarter last year. Revenues from content and value added services reached NIS 306 million (\$86 million), or 21.3% (or 20.3% after elimination of the one-time provision) of service revenues in the fourth quarter. Furthermore, the increase in landline services revenues during the quarter also offset in part the decrease in quarterly service revenues.

Cost of revenues for 2010 totaled NIS 3,322 million (\$936 million), compared to NIS 3,333 million (\$939 million) in 2009, a 0.3% decrease. Cost of revenues for 2010 includes a reversal of a one-time provision recorded in 2009 in the amount of NIS 15 million (\$4 million) related to a dispute with the Ministry of Communications regarding frequencies fees, following the Supreme Court ruling in our favor in that matter. After elimination of this one-time effect in both years, cost of revenues increased 0.6% totaling NIS 3,337 million (\$940 million) in 2010, compared to NIS 3,318 million (\$935 million) in 2009. Cost of revenues for 2010 was primarily affected by a decrease of 5.7% in equipment cost of revenues, while services cost of revenues increased by 1.1%. The decrease in equipment cost of revenues from NIS 690 million (\$194 million) in 2009 to NIS 651 million (\$183 million) primarily resulted from a decrease in the average handset cost due to, among others, increased efficiency in handsets purchase, as well as from a decrease in the total amount of handsets sold during 2010 compared with 2009. The increase in services cost of revenues from NIS 2,643 million (\$745 million) in 2009 to NIS 2,671 million (\$753 million) in 2010, resulted mainly from an increase in interconnect fees due to an increase in the number of outgoing calls completed in other operators' networks, and an increase in cost of content and value-added services due to increased usage. These increases were partially offset mainly by a decrease in roaming related expenses due to improved roaming agreements with foreign operators, a decrease in depreciation expenses and a decrease in royalties paid to the Ministry of Communications resulting from a decrease in the royalties' rate. The increases were also offset in part by a decrease in the cost of handsets repair services due to a more efficient handsets repair process, and by the reversal of a one-time provision, which was recorded in 2009, in the amount of NIS 15 million.

Cost of revenues for the fourth quarter of 2010 slightly decreased to NIS 845 million (\$238 million) from NIS 847 million (\$239 million) in the fourth quarter last year. The decrease in cost of revenues for the fourth quarter of 2010 resulted from the same reasons as for the decrease in the annual cost of revenues mentioned above.

Gross profit for 2010 increased 6.0% to NIS 3,340 million (\$941 million) from NIS 3,150 million (\$888 million) in 2009, or 7.1% to NIS 3,391 million (\$955 million) from NIS 3,165 million (\$892 million) after elimination of one-time effects. Gross profit margin for 2010 reached 50.1%, up from 48.6% in 2009. Gross profit for the fourth quarter 2010 increased 3.2% to NIS 817 million (\$230 million), or 9.6% to NIS 868 million (\$245 million) after elimination of one-time effects, from NIS 792 million (\$223 million) in the fourth quarter of 2009. Gross profit margin for the fourth quarter 2010 reached 49.2% up from 48.3% in the fourth quarter of 2009.

Selling, Marketing, General and Administrative Expenses ("SG&A Expenses") for 2010 increased 1.5% to NIS 1,397 million (\$394 million), compared to NIS 1,376 million (\$388 million) in 2009. The increase in SG&A Expenses was mainly due to an increase in the Company's sales and customer service force, due to, among others, the acquisition of Dynamica's operation, one of our major dealers, which led to an increase in payroll expenses and rent expenses, and due to an increase in allowance for doubtful accounts. These increases were partially offset by a decrease in sales commissions, mainly due to the acquisition of Dynamica's operation, and in advertising expenses, as well as a decrease in depreciation and amortization expenses, mainly related to software and information systems.

SG&A Expenses for the fourth quarter of 2010 decreased 1.3% to NIS 366 million (\$103 million), compared to NIS 371 million (\$105 million) in the fourth quarter of 2009. The decrease in SG&A Expenses in the quarter mainly resulted from a decrease in sales commissions, primarily due to the acquisition of Dynamica's operation, and in advertising expenses, as well as a decrease in depreciation and amortization expenses, mainly related to software and information systems. These decreases were partially offset by an increase in the Company's sales and customer service force, due to, among others, the acquisition of Dynamica's operation, which led to an increase in payroll expenses and rent expenses.

Operating income for 2010 increased 9.6% to a record of NIS 1,938 million (\$546 million) from NIS 1,768 million (\$498 million) in 2009, or 11.6% to NIS 1,989 million (\$560 million) from NIS 1,783 million (\$502 million) after elimination of one-time effects in both years. Operating income for the fourth quarter 2010 increased 6.9% to NIS 448 million (\$126 million), or 19.1% to NIS 499 million (\$141 million) after elimination of one-time effects, from NIS 419 million (\$118 million) in the fourth quarter last year.

EBITDA for 2010 increased 5.5% to a record of NIS 2,667 million (\$751 million) from NIS 2,529 million (\$713 million) in 2009, or 6.8% to NIS 2,718 million (\$766 million) from NIS 2,544 million (\$717 million) after elimination of one-time effects in both years. EBITDA, as a percent of revenues, totaled 40.0%, up from 39.0% in 2009. EBITDA for the fourth quarter 2010 increased 3.4% to NIS 631 million (\$178 million), or 11.8% to NIS 682 million (\$192 million) after elimination of one-time effects, from

NIS 610 million (\$172 million) in the fourth quarter last year. EBITDA for the fourth quarter 2010, as a percent of quarterly revenues, totaled 38.0% up from 37.2% in 2009.

Financing Expenses, net for 2010 increased 5% and totaled NIS 230 million (\$65 million), compared to NIS 219 million (\$62 million) in 2009. The increase was primarily due to losses from the Company's hedging portfolio, compared with gains from this hedging portfolio in 2009: (1) a loss from currency hedging transactions in 2010 due to a 6% appreciation of the NIS against the US dollar in 2010 compared with only 0.7% in 2009; (2) a loss from Israeli Consumer Price Index (CPI) hedging transactions in 2010 due to decreased inflation. The increase in financing expenses, net, was partially offset by a decrease in CPI linkage expenses associated with the Company's debentures due to the decreased inflation rate of 2.3% in 2010 compared with 3.8% in 2009, as well as by a net gain on the Company's current investment in tradable debentures in 2010. The increase was also offset in part by a one-time financing income in the amount of approximately NIS 12 million (\$4 million) recorded in the fourth quarter of 2010, related to the dispute with the Ministry of Communications regarding frequencies fees, following the Supreme Court's ruling in our favor in that matter.

Financing Expenses, net for the fourth quarter 2010 decreased 22.4% and totaled NIS 45 million (\$13 million), compared to NIS 58 million (\$16 million) in the fourth quarter last year. The decrease resulted mainly from the one-time financing income in the amount of NIS 12 million (\$4 million), related to the dispute with the Ministry of Communications regarding frequencies fees, as well as from higher income from foreign currency differences associated with trade payables balances in the fourth quarter of 2010, compared to the fourth quarter last year, due to a 3.2% appreciation of the NIS against the US dollar in the fourth quarter of 2010 compared to a 0.5% depreciation in the fourth quarter of 2009. The decrease in financing expenses, net, was partially offset by an increase in CPI linkage expenses, associated with the Company's debentures, resulting from increased inflation in the fourth quarter of 2010, as compared to the fourth quarter of last year.

Income tax for 2010 increased 13.6% to NIS 417 million (\$117 million) from NIS 367 million (\$103 million) in 2009. The increase resulted from the reduction of deferred tax liabilities and the recognition of a one-time tax income of approximately NIS 41 million recorded in the third quarter of 2009, due to the enactment in July 2009 of the Economic efficiency improvement Law, which provided, among others, for an additional gradual reduction of the corporate tax rate from 25% for the 2010 tax year down to 18% for the 2016 tax year and thereafter. The increase in income tax resulted also from an increase in income before income tax, which was partially offset by the decreased corporate tax rate of 25% in 2010 compared with 26% in 2009.

Net Income for 2010 increased 9.2% to a record of NIS 1,291 million (\$364 million) from NIS 1,182 million (\$333 million) in 2009, or 14.6% to NIS 1,320 million (\$372 million) from NIS 1,152 million (\$324 million) after elimination of one-time effects in both years. Net income for the fourth quarter

2010 increased 17.7% to NIS 319 million (\$90 million), or 28.4% to NIS 348 million (\$98 million) after elimination of one-time effects, from NIS 271 million (\$76 million) in the fourth quarter last year.

Basic earnings per share for 2010 totaled NIS 13.04 (\$3.68), compared to NIS 12.01 (\$3.38) in 2009. Basic earnings per share for the fourth quarter 2010 totaled NIS 3.28 (\$0.92), compared to NIS 2.75 (\$0.77) in the fourth quarter last year.

Operating Review

New Subscribers – at the end of 2010 the Company had approximately 3.394 million subscribers. During 2010 the Company added approximately 102,000 net new subscribers, all post-paid, out of which approximately 18,000 joined the Company in the fourth quarter.

In 2010, the Company added approximately 143,000 net new 3G subscribers to its 3G subscriber base, out of which 26,000 in the fourth quarter, reaching approximately 1.140 million 3G subscribers at the end of 2010. The Company's 3G subscribers represented 33.6% of the Company's total subscriber base at the end of 2010, an increase from the 30.3% 3G subscribers represented of total subscribers at the end of 2009.

The Churn Rate in 2010 totaled 20.5%, compared to 19.6% in 2009. The churn rate for the fourth quarter 2010 totaled to 5.3%, compared to 4.8% in the fourth quarter last year. Both annual and quarterly churn rates were primarily impacted by the churn of pre-paid subscribers characterized by lower contribution and subscribers with collection problems.

Average monthly subscriber Minutes of Use ("MOU") in 2010 totaled 335 minutes, compared to 331 minutes in 2009, an increase of 1.2%. MOU for the fourth quarter 2010 totaled 342 minutes, compared to 333 minutes in the fourth quarter 2009, an increase of 2.7%. Part of the quarterly increase is attributed to the occurrence of part of the Jewish holiday season, characterized by a reduced usage, in the fourth quarter in 2009, compared to the third quarter in 2010.

The monthly Average Revenue per User (ARPU) for 2010 totaled NIS 144 (\$40.6), similar to 2009. ARPU for the fourth quarter 2010 totaled NIS 144 (\$40.6), a 0.7% increase, compared to NIS 143 (\$40.3) in the fourth quarter last year. Both annual and quarterly figures were affected, among others, by increased usage, which was partially offset by the ongoing airtime price erosion in 2010 and the fourth quarter 2010, compared with the corresponding periods in 2009.

Financing and Investment Review

Cash Flow

Free cash flow for 2010 increased 8.4%, reaching NIS 1,645 million (\$464 million), compared to NIS 1,518 million (\$428 million) generated in 2009. Free cash flow for the fourth quarter of 2010 increased 55.7% and totaled NIS 422 million (\$119 million), compared to NIS 271 million (\$76 million) generated

in the fourth quarter of 2009. Free cash flow for 2010 and for the fourth quarter this year include NIS 154 million (\$43 million) and NIS 9 million (\$3 million), respectively, invested in the Company's current debt securities portfolio according to its investment policy, compared to NIS 212 million (\$60 million) and NIS 88 million (\$25 million) invested in 2009 and in the fourth quarter of 2009, respectively.

Shareholders' Equity

Shareholders' Equity as of December 31, 2010 amounted to NIS 341 million (\$96 million), primarily consisting of accumulated undistributed retained earnings.

Investment in Fixed Assets and Intangible Assets

During 2010 and the fourth quarter 2010, the Company invested NIS 735 million (\$207 million) and NIS 191 million (\$54 million), respectively, in fixed assets and intangible assets (including, among others, deferred sales commissions and handsets subsidies and investments in information systems and software), compared to NIS 663 million (\$187 million) and NIS 223 million (\$63 million) in 2009 and the fourth quarter 2009, respectively. The investment in 2010 includes a payment of NIS 108 million (\$30 million) pursuant to the acquisition of assets and operation of Dynamica.

Dividend

On March 14, 2011, the Company's board of directors declared a cash dividend in the amount of NIS 3.05 per share, and in the aggregate amount of approximately NIS 303 million (the equivalent of approximately \$0.86 per share and approximately \$85 million in the aggregate, based on the representative rate of exchange on March 10, 2011; 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 April 26, 2011), subject to withholding tax described below. 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 April 11, 2011. The payment date will be April 28, 2011. 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 fourth quarter of 2009 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. A 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, 2010 on Form 20-F, under "Item 8 - Financial Information - Dividend Policy".

Conference Call Details

The Company will be hosting a conference call on Tuesday, March 15, 2011 at 09:00 am EST, 06:00 am PST, 13:00 GMT, 15:00 Israel time. On the call, management will review and discuss the results, and will be available to answer questions. To participate, please either access the live webcast on the Company's website, or call one of the following teleconferencing numbers below. Please begin placing your calls at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1 888 407 2553

UK Dial-in Number: 0 800 917 9141

Israel Dial-in Number: 03 918 0610

International Dial-in Number: +972 3 918 0610

at: 09:00 am Eastern Time; 06:00 am Pacific Time; 13:00 UK Time; 15:00 Israel Time

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

Annual report for 2010

Cellcom Israel will be filing its annual report for the year ended December 31, 2010 (on form 20-F) with the US Securities and Exchange Commission today, March 15, 2011. The annual report will be available for download at the Cellcom Israel's website in the investor relations section of Cellcom Israel's website at: www.cellcom.co.il. Cellcom Israel will furnish a hard copy to any shareholder who so requests, without charge. Such requests may be sent through the Company's website or by sending a postal mail request to Cellcom Israel Ltd., 10 Hagavish Street, Netanya, Israel (attention: Chief Financial Officer).

About Cellcom Israel

Cellcom Israel Ltd., established in 1994, is the leading Israeli cellular provider; Cellcom Israel provides its approximately 3.394 million subscribers (as at December 31, 2010) 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 advanced high speed broadband multimedia services, 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. As of 2006, Cellcom Israel, through its wholly owned subsidiary Cellcom Fixed Line Communications L.P., provides 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 www.cellcom.co.il

Forward-Looking Statements

The following information contains, or may be deemed to contain forward-looking statements (as defined in the U.S. Private Securities Litigation Reform Act of 1995 and the Israeli Securities Law, 1968). In some cases, you can identify these statements by forward-looking words such as "may," "might," "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, 2010.

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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), as issued by the International Accounting Standards Board (IASB). Unless noted specifically otherwise, the dollar denominated figures were converted to US\$ using a convenience translation based on the US\$/New Israeli Shekel (NIS) exchange rate of NIS 3.549 = US\$ 1 as published by the Bank of Israel on December 31, 2010.

Use of non-IFRS financial measures

EBITDA is a non-IFRS measure and is defined as income before financing income (expenses), net; other income (expenses), net; 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-IFRS measure and is defined as the net cash provided by operating activities minus the net cash used in investing activities plus short-term investment in tradable debentures. See the reconciliation note at the end of this Press Release.

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Financial Tables Follow

Cellcom Israel Ltd.
(An Israeli Corporation)

Consolidated Statements of Financial Position

	December 31 2009 NIS millions	December 31 2010 NIS millions	Convenience translation Into U.S. dollar December 31 2010 US\$ millions
Assets			
Cash and cash equivalents	903	533	150
Current investments, including derivatives	272	404	114
Trade receivables	1,579	1,478	416
Other receivables	63	64	18
Inventory	149	104	30
Total current assets	2,966	2,583	728
Trade and other receivables	606	597	168
Property, plant and equipment, net	2,096	2,063	581
Intangible assets, net	711	753	212
Total non-current assets	3,413	3,413	961
Total assets	6,379	5,996	1,689
Liabilities			
Short-term borrowings	350	348	98
Trade payables and accrued expenses	806	716	202
Current tax liabilities	67	132	37
Provisions	84	84	23
Other current liabilities, including derivatives	405	379	107
Total current liabilities	1,712	1,659	467
Debentures	4,185	3,913	1,103
Provisions	16	17	5
Other long-term liabilities	1	1	-
Deferred taxes	91	65	18
Total non-current liabilities	4,293	3,996	1,126
Total liabilities	6,005	5,655	1,593

Shareholders' equity			
Share capital	1	1	-
Cash flow hedge reserve	(23)	(21)	(6)
Retained earnings	396	361	102
Total shareholders' equity	374	341	96
Total liabilities and shareholders' equity	6,379	5,996	1,689

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Cellcom Israel Ltd.
(An Israeli Corporation)

Consolidated Statements of Income

	Year ended December 31			Convenience translation into U.S. dollar Year ended December 31
	2008 NIS millions	2009 NIS millions	2010 NIS millions	2010 US\$ millions
Revenues	6,417	6,483	6,662	1,877
Cost of revenues	3,396	3,333	3,322	936
Gross profit	3,021	3,150	3,340	941
Selling and marketing expenses	701	716	756	213
General and administrative expenses	659	660	641	181
Other (income) expenses, net	(29)	6	5	1
Operating income	1,690	1,768	1,938	546
Financing income	83	151	106	30
Financing expenses	(393)	(370)	(336)	(95)
Financing expenses, net	(310)	(219)	(230)	(65)
Income before income tax	1,380	1,549	1,708	481
Income tax	391	367	417	117
Net income	989	1,182	1,291	364
Earnings per share				
Basic earnings per share in NIS	10.12	12.01	13.04	3.68
Diluted earnings per share in NIS	9.96	11.90	12.98	3.66

Cellcom Israel Ltd.
(An Israeli Corporation)

Consolidated Statements of Cash Flows

	Year ended December 31			Convenience translation into U.S. dollar
	2008 NIS millions	2009 NIS millions	2010 NIS millions	Year ended December 31 2010 US\$ millions
Cash flows from operating activities:				
Net income	989	1,182	1,291	364
Adjustments for:				
Depreciation and amortization	821	755	724	204
Share based payments	28	1	1	-
Capital gain on sale of land	(9)	-	-	-
Loss (gain) on sale of assets	(9)	6	5	1
Income tax expense	391	367	417	117
Financing expenses, net	310	219	230	65
Changes in operating assets and liabilities:				
Changes in inventories	36	(105)	-	-
Changes in trade receivables (including long-term amounts)	(117)	(69)	172	49
Changes in other receivables (including long-term amounts)	(34)	2	(6)	(2)
Changes in trade payables and accrued expenses	(271)	152	(42)	(12)
Changes in other liabilities (including long-term amounts)	99	(4)	(16)	(4)
Proceeds from (Payments for) derivative hedging contracts, net	(38)	21	(16)	(4)
Income tax paid	(451)	(447)	(380)	(107)
Net cash from operating activities	1,745	2,080	2,380	671
Cash flows from investing activities				
Acquisition of property, plant, and equipment	(429)	(404)	(441)	(124)
Acquisition of intangible assets	(175)	(173)	(180)	(51)
Acquisition of operation *	-	-	(108)	(31)
Change in current investments, net	-	(212)	(154)	(44)
Payments for derivative hedging contracts, net	(17)	-	-	-
Proceeds from (Payments for) other derivative contracts, net **	18	8	(17)	(5)
Proceeds from sales of property, plant and equipment	19	2	2	1
Interest received	17	5	9	3
Proceed from sale of long term assets	39	-	-	-
Net cash used in investing activities	(528)	(774)	(889)	(251)
Cash flows from financing activities				

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Proceeds from (Payments for) derivative contracts, net	31	33	34	10
Proceeds from (Payments for) short term borrowings		8	(8)	(2)
Repayments of long-term loans from banks	(648)	-	-	-
Repayments of debentures	(125)	(332)	(343)	(97)
Proceeds from issuance of debentures, net of issuance costs	589	989	-	-
Dividend paid	(1,525)	(1,186)	(1,319)	(372)
Interest paid	(175)	(190)	(225)	(63)
Net cash used in financing activities	(1,853)	(678)	(1,861)	(524)
Changes in cash and cash equivalents	(636)	628	(370)	(104)
Balance of cash and cash equivalents at beginning of the period	911	275	903	254
Balance of cash and cash equivalents at end of the period	275	903	533	150

(*) Business Combination

(**) Reclassified

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Cellcom Israel Ltd.
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Reconciliation for Non-IFRS Measures

EBITDA

The following is a reconciliation of net income to EBITDA:

	Year ended December 31			Convenience translation into US dollar Year ended December 31 2010 US\$ millions
	2008 NIS millions	2009 NIS millions	2010 NIS millions	
Net income	989	1,182	1,291	364
Income taxes	391	367	417	117
Financing income	(83)	(151)	(106)	(30)
Financing expenses	393	370	336	95
Other expenses (income)	(29)	6	5	1
Depreciation and amortization	821	755	724	204
EBITDA	2,482	2,529	2,667	751

Free cash flow

The following table shows the calculation of free cash flow:

	Year ended December 31			Convenience translation into US dollar Year ended December 31 2010 US\$ millions
	2008 NIS millions	2009 NIS millions	2010 NIS millions	
Cash flows from operating activities	1,763	2,088	2,380	671
Cash flows from investing activities	(546)	(782)	(889)	(251)
short-term Investment in tradable debentures	-	212	154	44
Free cash flow	1,217	1,518	1,645	464

Reconciliation for adjusted measures

The following is a reconciliation of operating income to adjusted operating income and to adjusted EBITDA:

	Year ended December 31		Convenience translation into US dollar	Three months ended December 31	Convenience translation into US dollar	Three months ended December 31
	2009 NIS millions	2010 NIS millions	Year ended December 31 2010 US\$ millions	December 31 2010 NIS millions	December 31 2010 US\$ millions	December 31 2010 US\$ millions
Operating income	1,768	1,938	546	448	126	
Elimination of a one-time provision for a refund related to network malfunction	-	66	19	66	19	
Elimination of a one-time provision regarding frequencies fees	15	(15)	(4)	(15)	(4)	
Adjusted operating income	1,783	1,989	561	499	141	
Other expenses (income), net	6	5	1	3	1	
Depreciation and amortization	755	724	204	180	50	
Adjusted EBITDA	2,544	2,718	766	682	192	

The following is a reconciliation of net income to adjusted net income:

	Year ended December 31		Convenience translation into US dollar	Three months ended December 31	Convenience translation into US dollar	Three months ended December 31
	2009 NIS millions	2010 NIS millions	Year ended December 31 2010 US\$ millions	December 31 2010 NIS millions	December 31 2010 US\$ millions	December 31 2010 US\$ millions
Net income	1,182	1,291	364	319	90	
Elimination of a one-time provision for a refund related to network malfunction	-	66	19	66	19	
Elimination of a one-time provision regarding frequencies fees	15	(15)	(4)	(15)	(4)	
	-	(12)	(4)	(12)	(4)	

Elimination of a one-time financing income regarding frequencies fees					
Tax related to the above one-time effects	(4)	(10)	(3)	(10)	(3)
Elimination of a one-time tax income	(41)	-	-	-	-
Adjusted net income	1,152	1,320	372	348	98

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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: March 15, 2011

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