Cellcom Israel Ltd.

Solid Third-Quarter Results Highlighted by 31% Growth in Value-Added Services/Content

Summary
Third-quarter GAAP EPS of $0.71 (NIS 2.41) exceeded our estimate by $0.04 and consensus by $0.06, based on revenue of NIS 1.65 billion (up 5% year-over-year) that was NIS 28 million above our estimate. The solid revenue performance was driven by higher-than-expected content and value-added services revenue, which was partly offset by lower-than-expected equipment revenue. EPS upside was driven by higher revenues and lower operating expenses from improved efficiency.

Stock Thoughts
We believe that Cellcom has benefited from its early investment in a 3G UMTS network, primarily through its ability to attract higher ARPU 3G customers. These customers have driven the strong demand for data subscriptions, content, and value-added services that have helped drive Cellcom's strong relative performance. The ARPU increased 3.9% sequentially this quarter. At the same time, roaming customers from abroad who typically pay higher fees for minutes of use have only had Cellcom as an option for 3G UMTS service. With Pelephone's 3G UMTS network set to launch in the second half of 2008, we believe there is significant potential for the competitive environment to shift.

Trading at 12 times our 2009 EPS estimate, we believe Cellcom's stock is not expensive in absolute terms. The shares garner a 10% premium to direct competitor Partner Communications (PTNR $18.79) on consensus 2009 EPS estimates. With expectations for limited growth in a mature mobile market, we believe that the prospects for outperformance will become increasingly challenged. Therefore, we maintain our Market Perform rating.

Key Highlights Summary (Details Below)
(+) Average revenue per user (ARPU) increased by NIS 6, to NIS 157.21, yielding a sequential increase in average service revenue per minute.

(+) The company again reported strong growth in its landline business, which leverages the fiber optic network used by the company for mobile backhaul.

(+) Operating expenses as a percentage of sales declined 60 basis points sequentially to 21.3%, 180 basis points better than our estimate.

(+) The company announced a dividend of NIS 3.07 per share (reflecting an approximate 127% payout of net income), a higher-than-normal payout rate.

(+) The churn rate came in 10 basis points below our estimate at 4.4%, as the impact from local number portability (LNP) implementation in late 2007 has slowed.

Technology | Wireless Communications

November 10, 2008

Stock Rating:	**Market Perform**
Company Profile:	**Core Growth**
Symbol:	CEL (NYSE)
Price:	$27.66 (52-Wk.: $26-$37)
Market Value (mil.):	$10,433
Fiscal Year End:	December
Long-Term EPS Growth Rate:	12%
Dividend/Yield:	$9.37/33.9%

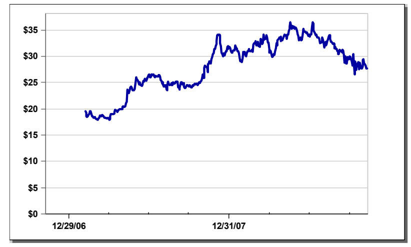
	2007A	2008E	2009E
Estimates*			
EPS FY	$2.31	$2.90	$2.21
CY		$2.90	$2.21
Valuation			
FY P/E	12.0x	9.5x	12.5x
CY P/E		9.5x	12.5x

* Estimates do not reflect the adoption of FAS 123R.

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	98
Float (mil.)	41
Average Daily Volume	239,679

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	13,200.5
EBITDA (TTM)	2,115.0
Enterprise Value/EBITDA (TTM)	6.2x
Return on Equity (TTM)	105.2

Two-Year Price Performance Chart



Source: Thomson Financial, William Blair & Company estimates

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(-) We believe that Cellcom's roaming minutes and 3G traction (higher ARPU subscriptions) could potentially face stiffer competition with the rollout of Pelephone's 3G network.

(-) Financing expenses were above our expectations.

Our Estimates Summary

- Our estimate revisions are primarily based on our expectation that ARPU can be sustained at a higher level for the balance of the year as 3G network growth continues. We have also factored in a lower exchange rate for the fourth quarter, as the four-quarter trend of appreciation of the shekel relative to the dollar reversed this quarter.

Estimate Summary				
	Old Estimate	YOY % Change	New Estimate	YOY % Change
Q4 Revenue	1.57B	-0.6%	1.67B	5.2%
Q4 EPS	NIS2.41	30.6%	NIS2.68	45.5%
FY2008 Revenue	6.39B	5.6%	6.51B	7.6%
FY2008 EPS	NIS9.83	10.8%	NIS10.17	14.7%

Positives

- **Average revenue per user (ARPU) increased by NIS 6, to NIS 157.21, yielding a sequential increase in average service revenue per minute.** Average revenue per user increase was driven by a 31.1% year-over-year increase in revenue from content and value-added services. In addition, the 3G subscriber base grew by 71,000, to 679,000, helping to drive higher ARPU. Minutes of use per customer increased by 3, to 357, driven by increasing use of bucket minute plans and a mix shift favoring post paid subscribers.

- **The company again reported strong growth in its landline business, which leverages the fiber optic network used by the company for mobile backhaul.** We believe the company continues to see success in selling next-generation network (NGN) services to business customers in concentrated industrial parks. Cellcom continues to target only business customers, though it will consider residential customers when they become a profitable opportunity.

- **Operating expenses as a percentage of sales declined 60 basis points sequentially to 21.3%, 180 basis points better than our estimate.** The company was broadly successful in holding down expenses, most notably through continued efforts to improve the efficiency in its service and repair operations. These gains were partly offset by an increase in the allowance for doubtful accounts.

- **The company announced a dividend of NIS 3.07 per share (reflecting an approximate 127% payout of net income), a higher-than-normal payout rate.** The higher rate was to likely intended to pay out some cash that still remained even after the fourth quarter 2007 one-time extraordinary dividend of NIS 5.40 per share.

- **The churn rate came in 10 basis points below our estimate at 4.4%, as impact from local number portability (LNP) implementation in late 2007 has slowed.** After the churn rate hit a high of 5.3% in the first quarter, we had been modeling a slightly shallower decline (4.5% versus the reported 4.4%) to occur as local number portability transactions normalized. That said, churn continues to be elevated relative to historical levels, fueled by an increasingly competitive environment, with local number portability lowering the switching barrier for consumers by allowing them to keep their phone numbers when switching carriers.

Negatives

- **We believe that Cellcom's high-value roaming minutes and 3G traction (higher ARPU subs) could potentially face stiffer competition.** Competitor Bezeq appears closer to unbundling its services and launching its own 3G network for its mobile operator Pelephone. With Pelephone's network also based on UMTS, we expect Cellcom to face greater competition and reduced market share gains from consumers seeking a UMTS-based 3G service. While the third competitor, Partner Communications, currently has a 3G network, it is based on CDMA2K technology, which does not support roaming for UMTS customers.

- **Financing expenses were above our expectations.** Management noted higher debt carried forward since the end of 2007, which led to higher interest and linkage expenses to the Israeli CPI. These higher expenses were partly offset by prepayment on the company's credit facility and hedging transactions.

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Cellcom Israel Ltd. (CEL)

November 10, 2008 Price: $27.62 ($26.08 - $37.05)
Total Company Earnings Model
Variance Analysis

NIS (millions)	3Q07	3Q08E	3Q08	Better/ Worse
Total revenue	**1,572**	**1,622**	**1,650**	**28**
YOY % change	7.2%	3.2%	5.0%	1.8%
Estimated recurring	1,413	1,442	1,480	38
Monthly ARPU (calculated)	158	154	157	4
Monthly MOU	354	363	354	(9)
Estimated data %				
Estimated equipment, net	159	180	170	(10)
Total cost of revenue	846	852	856	(4)
Estimated service costs	668	649	661	(12)
Estimated equipment costs	178	203	196	8
Gross margin	**726**	**769**	**794**	**25**
as a % of total revenue	46.2%	47.5%	48.1%	0.7%
Estimated service margin	52.7%	55.0%	55.4%	0.4%
Estimated equip margin	-12.1%	-13.0%	-15.0%	-2.0%
Selling and marketing exps	193	195	188	7
as a % of total revenue	12.3%	12.0%	11.4%	
General and admin exps	167	180	164	16
as a % of total revenue	10.6%	11.1%	9.9%	
Operating Income	**366**	**394**	**442**	**48**
as a % of total revenue	23.3%	24.3%	26.8%	
YOY % change	23.8%	7.8%	20.8%	
memo: Depreciation/Amort	193	190	188	2
EBITDA	**559**	**584**	**630**	**46**
as a % of total revenue	35.6%	36.0%	38.2%	
YOY % change	7.8%	4.6%	12.7%	
Total CAPX	136	120	120	
as a % of total revenue	8.7%	7.4%	7.3%	
Financial income/(expense), net	(75)	(75)	(109)	(34)
Other income/(expense), net	(2)	0	(2)	(2)
Income tax (expense)/benefit	19	86	92	(6)
Effective tax rate	6.6%	27.0%	27.8%	-0.8%
Net income	270	233	239	6
Wtd. avg. diluted shs. o/s	98,380	99,363	99,169	(194)
EPS common (diluted) in NIS	**$ 2.74**	**$ 2.35**	**$ 2.41**	**0.06**
YOY % change	92.9%	-14.5%	-12.2%	
EPS common (diluted) in USD*	**$ 0.68**	**$ 0.67**	**$ 0.71**	**$ 0.03**
Wireless customers	**3,017**	**3,141**	**3,158**	**17**
YOY % change	6.7%	4.1%	4.7%	
Penetration	42.0%	43.0%	43.2%	
Internal net additions	57	23	40	
Internal gross additions	165	164	178	
Avg. quarterly churn	**3.6%**	**4.5%**	**4.4%**	**-0.1%**
In-to-gain ratio	2.89	7.12	4.45	

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November 10, 2008 Price: $27.62 ($26.08 - $37.05)
Total Company Earnings Model

Rating: Market Perform
Company Profile: Core Growth

NIS (millions)	FY05	FY06	1Q07	2Q07	3Q07	4Q07	FY07	1Q08	2Q08	3Q08	4Q08E	FY08E	FY09E	FY10E
Total revenue	**5,114**	**5,622**	**1,438**	**1,456**	**1,572**	**1,584**	**6,050**	**1,595**	**1,600**	**1,650**	**1,667**	**6,512**	**6,183**	**6,409**
YOY % change	-8.7%	9.9%	7.4%	5.1%	7.2%	10.7%	7.6%	10.9%	9.9%	5.0%	5.2%	7.6%	-5.0%	3.6%
Estimated recurring	4,549	4,986	1,277	1,322	1,413	1,375	5,387	1,358	1,410	1,480	1,487	5,735	5,575	5,803
Monthly ARPU (calculated)	152	152	146	150	158	150	151	147	151	157	156	153	144	147
Monthly MOU	321	335	341	345	354	348	347	351	354	357	359	355	336	342
Estimated equipment, net	565	636	161	134	159	209	663	237	190	170	180	777	608	606
Total cost of revenue	3,133	3,273	783	785	846	958	3,372	879	819	856	859	3,413	3,322	3,346
Estimated service costs	2,450	2,493	593	614	668	697	2,572	609	600	661	654	2,524	2,531	2,558
Estimated equipment costs	683	780	190	171	178	261	800	270	219	196	205	890	791	788
Gross margin	**1,981**	**2,349**	**655**	**671**	**726**	**626**	**2,678**	**716**	**781**	**794**	**807**	**3,098**	**2,861**	**3,063**
as a % of total revenue	38.7%	41.8%	45.5%	46.1%	46.2%	39.5%	44.3%	44.9%	48.8%	48.1%	48.4%	47.6%	46.3%	47.8%
Estimated service margin	46.1%	50.0%	53.6%	53.6%	52.7%	49.3%	52.3%	55.2%	57.4%	55.4%	56.0%	56.0%	54.6%	55.9%
Estimated equip margin	-20.9%	-22.7%	-18.0%	-27.8%	-12.1%	-24.7%	-20.7%	-13.9%	-15.3%	-15.0%	-14.0%	-14.5%	-30.0%	-30.0%
Selling and marketing exps	623	656	165	164	193	163	685	156	177	188	182	703	728	742
as a % of total revenue	12.2%	11.7%	11.5%	11.3%	12.3%	10.3%	11.3%	9.8%	11.1%	11.4%	10.9%	10.8%	11.8%	11.6%
General and admin exps	656	659	143	162	167	180	652	154	173	164	170	661	639	637
as a % of total revenue	12.8%	11.7%	9.9%	11.1%	10.6%	11.4%	10.8%	9.7%	10.8%	9.9%	10.2%	10.2%	10.3%	9.9%
Operating Income	**702**	**1,034**	**347**	**345**	**366**	**283**	**1,341**	**406**	**431**	**442**	**455**	**1,734**	**1,495**	**1,685**
as a % of total revenue	13.7%	18.4%	24.1%	23.7%	23.3%	17.9%	22.2%	25.5%	26.9%	26.8%	27.3%	26.6%	24.2%	26.3%
YOY % change	-26.3%	47.2%	58.7%	25.6%	23.8%	29.3%	29.7%	17.0%	24.9%	20.8%	60.8%	29.3%	-13.8%	12.7%
memo: Depreciation/Amort	941	883	188	194	193	199	774	187	186	188	190	751	625	600
EBITDA	**1,643**	**1,917**	**535**	**539**	**559**	**482**	**2,115**	**593**	**617**	**630**	**645**	**2,485**	**2,120**	**2,285**
as a % of total revenue	32.1%	34.1%	37.2%	37.0%	35.6%	30.4%	35.0%	37.2%	38.6%	38.2%	38.7%	38.2%	34.3%	35.6%
YOY % change	-14.2%	16.7%	19.8%	9.9%	7.8%	10.8%	10.3%	10.8%	14.5%	12.7%	33.8%	17.5%	-14.7%	7.8%
Total CAPX	747	625	90	138	136	270	634	118	120	120	270	628	600	600
as a % of total revenue	14.6%	11.1%	6.3%	9.5%	8.7%	17.0%	10.5%	7.4%	7.5%	7.3%	16.2%	9.6%	9.7%	9.4%
Financial income/(expense), net	24	(155)	(42)	(19)	(75)	(20)	(156)	(45)	(109)	(109)	(90)	(353)	(210)	(180)
Other income/(expense), net	(11)	(6)	0	(1)	(2)	0	(3)	18	0	(2)	0	16	0	0
Income tax (expense)/benefit	232	314	97	113	19	80	309	106	92	92	99	389	360	406
Effective tax rate	32.4%	36.0%	31.8%	34.8%	6.6%	30.4%	26.1%	28.0%	28.6%	27.8%	27.0%	27.8%	28.0%	27.0%
Net income	483	559	208	212	270	183	873	273	230	239	267	1,009	925	1,098
Wtd. avg. diluted shs. o/s	97,500	97,500	97,500	98,466	98,380	99,417	98,441	98,887	99,163	99,169	99,469	99,172	97,573	97,573
EPS common (diluted) in NIS	**$ 4.95**	**$ 5.73**	**$ 2.13**	**$ 2.15**	**$ 2.74**	**$ 1.84**	**$ 8.87**	**$ 2.76**	**$ 2.32**	**$ 2.41**	**$ 2.68**	**$ 10.17**	**$ 9.31**	**$ 11.03**
YOY % change	-21.7%	15.7%	58.0%	46.2%	92.9%	51.0%	54.8%	29.4%	7.7%	-12.2%	45.5%	14.7%	-8.5%	18.5%
EPS common (diluted) in USD*	**$ 1.17**	**$ 1.36**	**$ 0.51**	**$ 0.51**	**$ 0.68**	**$ 0.48**	**$ 2.31**	**$ 0.78**	**$ 0.69**	**$ 0.71**	**$ 0.72**	**$ 2.90**	**$ 2.21**	**$ 2.61**
Wireless customers	**2,603**	**2,884**	**2,928**	**2,960**	**3,017**	**3,074**	**3,074**	**3,097**	**3,118**	**3,158**	**3,182**	**3,182**	**3,249**	**3,314**
YOY % change	6.3%	10.8%	10.9%	10.5%	6.7%	6.6%	6.6%	5.8%	5.3%	4.7%	3.5%	3.5%	2.1%	2.0%
Penetration	37.3%	40.6%	41.1%	41.3%	42.0%	42.6%	42.6%	42.7%	42.8%	43.2%	43.3%	43.3%	43.5%	43.6%
Internal net additions	154	281	44	32	57	57	190	23	21	40	24	108	67	65
Internal gross additions	523	727	154	147	165	191	657	187	167	178	167	698	581	577
Avg. quarterly churn	**3.7%**	**4.1%**	**3.8%**	**3.9%**	**3.6%**	**4.4%**	**3.9%**	**5.3%**	**4.7%**	**4.4%**	**4.5%**	**4.7%**	**4.0%**	**3.9%**
In-to-gain ratio	3.39	2.59	3.51	4.59	2.89	3.35	3.46	8.11	7.95	4.45	6.94	6.47	8.70	8.88

* Currency translation can vary depending on quarterly exchange rates

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William Blair & Company, L.L.C. has received compensation for investment banking services from the company within the past 12 months, or expects to receive or intends to seek compensation for investment banking services in the next 3 months.

Please consult the last page of this report for all disclosures.

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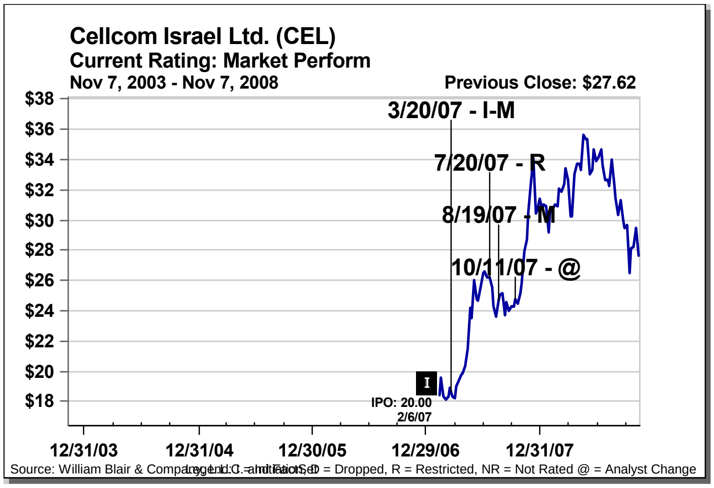
Additional information is available upon request.



Current Rating Distribution (as of 10/31/08)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	58	Outperform (Buy)	4
Market Perform (Hold)	41	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	1

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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