

# Financial Reports

for the quarter ended September 30, 2009

SCAILEX CORPORATION LTD.

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## Directors report for the three months ended September 30, 2009

### 1. Concise of Description of the Company and its environment

- 1.1 Scailex Corporation Ltd. ("the Company") is a public company whose shares are listed for trading on the Tel-Aviv Stock Exchange and are quoted in the Pink Quote (known also as the Pink Sheets) in the United States.
- 1.2 Correct to the date of this report, the controlling shareholder of the Company is Suny Electronics Ltd. ("Suny"), which holds some 82.49% of the Company's share capital (not fully diluted and after neutralizing dormant shares). Suny's controlling shareholder is Mr. Ilan Ben-Dov, who holds, in addition to his holdings through Suny, some 0.95% of the Company's share capital.
- 1.3 Correct to the date of this report, the Company operates in three main operating segments: the segment of managing financial assets and locating business opportunities ("**the Asset Management Segment**"), the cellular operators segment and the end-customer segment.
- 1.4 On August 12, 2009, an agreement ("**Advent agreement**") was signed between the Company and Advent Investment Pte. Ltd., a Singapore corporation controlled by Hutchison Telecommunications International Ltd., for the purchase of 78,940,104 ordinary shares of ILS 0.01 par value each of Partner Communications Ltd. ("**Partner**"), which constitute, correct to the signing date of the acquisition agreement, some 51.31% of Partner's issued and paid-up share capital (some 49.41% fully diluted), for the consideration of NIS 67.025 (about USD 17.5) per share of Partner, totalling the inclusive consideration of some NIS 5.29 billion (about USD 1.38 billion).
- 1.5 On October 28, 2009, the Advent Agreement was executed and consummated, in accordance with its conditions. Additional agreements were also executed and consummated on that same day, under which the Company sold a portion of its holdings of Partner to third parties ("**the Sale Agreements**"). Correct to November 5, 2009, the Company is holding some 44.92% of Partner's issued and paid-up share capital and voting rights (not

fully diluted and disregarding dormant shares held by Partner itself), which are some 43.34% of Partner's issued and paid-up share capital on a fully diluted basis (disregarding dormant shares held by Partner itself).

According to data provided to the Company by the Company's controlling shareholder, Suny Electronics Ltd. ("Suny"), correct to the date of this Report, Suny is holding about 0.67% of Partner's issued and paid-up share capital (not fully diluted and disregarding dormant shares held by Partner), such that the Company, together with an interested party therein, Suny, is holding 45.59% of Partner's issued and paid-up share capital (not fully diluted and disregarding dormant shares held by Partner), and 43.99% on a fully diluted basis, of which 17,225,740 shares, constituting 21% of Partner's issued share capital on a fully diluted basis, are control core shares of Partner.

For additional particulars about the consummation of the Advent Agreement and the Sale Agreements, see clause 7.13 hereunder.

## **2. Results of operations**

The Attached Financial Statements have been prepared in accordance with the Israeli Securities Regulations and the International Financial Reporting Standards ("IFRS").

Correct to the date of this Report, the Company's functional currency is the New Israeli Shekel (NIS). The functional currency of the cellular operators segment is the USD, however, the statements are presented in NIS as part of the Company's Consolidated financial statements, which are presented in NIS.

### **2.1 The three months ended September 30, 2009**

#### **2.1.1 Income from continuing operations**

2.1.1.1 During the three-month period ended September 30, 2009 ("the Report Period") the Company's income from sales and from the provision of services totalled some NIS 186.8 million. This included income: in the cellular operators segment of some NIS 142.1 million

from sales of cellular handsets and accessories, and income from the provision of services totalling some NIS 10.4 million; and, in the end customer segment, income from sales of some NIS 26.5 million and income from the provision of services totalling some NIS 7.8 million.

The Company has sustained its level of revenues in the cellular segments relative to previous quarters. It should also be noted that, during the three-month period ended September 30, 2008, no revenue whatsoever was recorded from sales or from the provision of services, since the Company had no business activity during that period that generated revenues from sales or services.

2.1.1.2 Financing income totalled about NIS 22.9 million during the period of the report, compared with about NIS 14.0 million in the corresponding period last year. The financing income included mostly profits from negotiable securities and from interest income generated from the Company's cash balances. The financing income during the corresponding period last year included mainly interest income.

2.1.2 Expenses related to continuing operations

2.1.2.1 The cost of sales and the provision of services during the period of the report totalled about NIS 136.6 million. This cost included mainly purchases, less changes in inventories of cellular phones and accessories, as well as depreciation and amortization expenses, including amortization of intangible assets created due to the acquisition of the operating segments.

In September 30, 2008, no expenses relating to the cost of sales were recorded since there was no income from sales or from the provision of services.

2.1.2.2 Selling expenses totalled about NIS 19.3 million in June 30, 2009 and included wage expenses of about NIS 5.8 million, advertising expenses of some NIS 8.8 million and store rent and maintenance expenses totalling some NIS 2.7 million. The selling expenses of the cellular operators segment totalled some NIS 10.7 million, while the selling expenses of the end-customer segment totalled some NIS 8.6 million. The increase in the selling expenses relative to the preceding quarter derived from an increase in the advertising and marketing expenses pertaining to extensive activities carried out by the Company launching advanced telephones.

In the period ended September 30, 2008, selling expenses were not recorded, since there was no income from sales or from the provision of services.

2.1.2.3 Administrative and general expenses totalled about NIS 13.5 million in September 30, 2009. The administrative and general expenses during the report period included wage expenses totalling NIS 3.6 million, donations totalling NIS 1.6 million while most of the balance was in respect of expenditures to external consultants. The breakdown of the administrative and general expenses by operating segment is as follows: cellular operators segment – NIS 4.1 million; end customer segment – NIS 1.9 million; and the Company's asset management segment – NIS 7.5 million.

For the three-month period ended September 30, 2008, the Company's administrative and general

expenses totalled some NIS 3.3 million, and included only the asset management segment, which was the Company's only segment during that period.

The increase in the administrative and general expenses of the management segment relative to previous periods derived mainly from the fact that the Company incurred expenses in respect of payments to external consultants in relation to all matters pertaining to the acquisition transaction of the control of Partner, and due to an increase in the total donations as stated above.

2.1.2.4 The financing expenses during the current quarter totalled some NIS 5.5 million, compared with financing expenses of some NIS 0.1 million during the corresponding period last year. The financing expenses during the current period derived mainly from the interest and index-linkage expenses that accrued in respect of the bonds issued by the Company in September 2009. The financing expenses during the corresponding period last year included mainly bank commissions.

#### 2.1.3 Taxes on Income

No tax benefit was recorded during the third quarter of. A tax benefit was recorded during the corresponding period last year at the sum of about NIS 25.6 million. This sum derived from the establishment of a tax asset totalling some NIS 25.6 million, in light of the Management's assessment, according to counseling that it received, that the Company shall be able to utilize a portion of its accrued losses for tax purposes, following the acquisition of the operations from Suny.

#### 2.1.4 Net profit from continuing operations

The net profit for the report period from continuing operations totalled some NIS 34.9 million, which derived mainly from the

operating profit from the cellular operators at the sum of about NIS 23.6 million, from financial income totalling NIS 9.1 million, which included interest and linkage in respect of the bonds issued by the Company, as stated above. During the corresponding quarter last year, the Company presented net profit from continuing operations at the sum of about NIS 36.2 million, which derived mainly from the financing income generated to the Company from the cash balances and from the establishment of a tax asset as stated above in clause 2.1.3.

2.1.5 Net income

During the report period, the net profit totalled some NIS 34.8 million, compared with a net profit of some NIS 36.1 million in the corresponding period in 2008. The majority of the profits during the period derived from the Company's revenues from its operating segments and from financing income that derived from the cash balances invested in the capital market and in bank deposits.

2.2 The nine months ended September 30, 2009

2.2.1 Income from continuing operations

2.2.1.1 During the nine-month period ended September 30, 2009 the Company's income from sales and from the provision of services totalled some NIS 560.3 million. This included income: in the cellular operators segment of some NIS 429.6 million from sales of cellular handsets and accessories, and income from the provision of services totalling some NIS 27.1 million; and, in the end customer segment, income from sales of some NIS 80.4 million and income from the provision of services totalling some NIS 23.2 million.

The average revenue per telephone from sales of end equipment to the various operators rose during 2009, mainly due to the launching of innovative Samsung touch screen devices that have a higher value.

During the corresponding period last year no income was recorded whatsoever from sales and from the provision of services since the Company had no business operations during that period that generated revenues from sales and services.

2.2.1.2 Financing income totalled about NIS 130.1 million during the nine-month period ended September 30, 2009, compared with about NIS 19.3 million in the corresponding period last year. The financing income included profits from marketable securities totalling some NIS 122.5 million, including interest and dividends received from negotiable securities, interest income of some NIS 4.8 million and exchange rate differentials at the inclusive total of some NIS 2.8 million. The financing income during the corresponding period last year included mainly interest income.

2.2.1.3 During the nine-month period ended September 30, 2009, other income was recorded at the sum of about NIS 0.3 million. This income included a dividend received from Real Time Image Ltd., whose operations were sold in 2005. See Note 15.c (2) of the annual financial statements. During the corresponding period last year the Company recorded other income totalling some NIS 308.2 million, which derived mainly from the capital gain from the sale of PCH at the sum of about NIS 247.0 million, dividend income received from Oil Refineries Ltd. ("ORL") at the sum of about NIS 37.8 million, and

capital gain totalling some NIS 23.0 million, which derived from the acquisition of the minority interest in PCH during the first quarter of 2008.

## 2.2.2 Expenses related to continuing operations

2.2.2.1 The cost of sales and the provision of services during the nine months ended September 30, 2009 totalled about NIS 415.0 million. This cost relates mainly to the cost of purchasing telephones and accessories, which were sold during this period, plus depreciation and amortization expenses, including the amortization of intangible assets created due to the acquisition of the operations, at the sum of about NIS 12.0 million. In September 30, 2008, no expenses relating to the cost of sales were recorded since there was no income from sales or from the provision of services.

2.2.2.2 Selling expenses totalled about NIS 47.0 million during the nine-month period ended September 30, 2009 and included mainly current wage expenses and marketing and advertising expenses. The marketing and advertising expenses were incurred mainly in the cellular operators segment and derived from advertisements and marketing to launch new, advanced telephones, with the focus on strengthening the Samsung "Touch" brand. The Company's selling expenses by segments: some NIS 22.5 million in the cellular operators segment and some NIS 24.5 million in the end-customer segment.

In the period ended September 30, 2008, selling expenses were not recorded, since there was no income from sales or from the provision of services.

2.2.2.3 Administrative and general expenses totalled about NIS 31.6 million during the nine-month period ended September 30, 2009. The breakdown of the administrative and general expenses by operating segment is as follows: cellular operators segment – NIS 12.5 million; end customer segment – NIS 5.6 million; and the administrative segment – NIS 13.5 million.

During the nine-month period ended September 30, 2008, the Company's administrative and general expenses totalled some NIS 11.8 million, and included only the administrative and general expenses of the asset management segment, which had been the only segment during that period.

The principal rise in the management segment derived from an increase in the Company's expenses for donations and from an increase in the Company's expenditures to consultants in relation to all matters pertaining to the acquisition transaction of the control of Partner.

2.2.2.4 The financing expenses during the report period totalled some NIS 9.1 million, compared with financing expenses of some NIS 0.9 million during the corresponding period last year. The increase in the financing expenses during the current period derived from the creation of interest and linkage expenses in relation to the bonds issued by the Company during September 2009, as part of the process of recruiting funds to finance the acquisition transaction of the control of Partner. The financing expenses during the corresponding period last year were also comprised mainly of bank commissions and exchange rate differentials.

### 2.2.3 Taxes on Income

A tax benefit was recorded during the nine-month period ended September 30, 2009 at the sum of about NIS 3.4 million. This benefit derived as a result of updating of the tax asset that the Company recorded in respect of its public losses for tax purposes. During the corresponding period, the tax benefit totalled some NIS 24.7 million, which derived from the tax asset that the Company recorded in respect of the acquisition of the cellular operations from Suny, and from the certainty created regarding the Company's ability to utilize the balances of accrued losses for tax purposes.

### 2.2.4 Net profit from continuing operations

The net profit for the period from continuing operations totalled some NIS 191.3 million, which derived mainly from the operating profit from the cellular operators at the sum of about NIS 79.2 million, and from net financing income in the management segment, totalling some NIS 105.9 million, the majority of which derived from profits from securities. During the corresponding period last year, the Company presented a net profit from continuing operations totalling some NIS 339.5 million, which derived mainly from other income totalling some NIS 308.2 million, the majority of which resulted from the capital gain from the sale of PCH.

### 2.2.5 Income from discontinued operations

Profit of about NIS 1.4 million was recorded during the nine-month period from discontinued operations. This profit derived mainly from the receipt of an additional sum of about NIS 1.5 million in respect of the sale of the assets and operations of Scaillex Vision to HP in 2005. During the nine-month period ended on September 30, 2008, income from discontinued operations was recorded at the total of some NIS 10.8 million. This income derived mainly from the update of the provisions pertaining to the sum remaining in escrow after the sale of Scaillex Vision to HP, subsequent to the signing of a settlement

agreement between the Company and HP in relation to claims submitted to the trustee by HP.

#### 2.2.6 Net income

During the nine-month period, the net profit totalled some NIS 192.7 million, compared with a net profit of some NIS 350.3 million in the corresponding period in 2008. The majority of the profit during the corresponding period last year derived from a profit generated from the sale of PCH. The net profit during the current period derives from operating profits of the Company's cellular operating segments and from profits generated to the Company in respect of its cash balances, which are invested in the capital market and in bank deposits.

### 3. Financial condition

#### 3.1 Total balance sheet

As of the financial statement date, the total balance sheet amounted to NIS 2,824.0 million, compared to NIS 1,375.0 million at the end of 2008. The significant increase derived mainly from cash received following the issuance of bonds at the inclusive total of some NIS 1.5 billion, which the Company carried out during September 2009. The balances of the funds recruited have been deposited with a trustee for the acquisition of the control of Partner.

#### 3.2 Current assets

As at the date of the financial statements, current assets amounted to NIS 2,626.1 million, compared to NIS 1,168.7 million as at the end of the corresponding period in 2008.

The Company's principal assets, which are presented under current assets as on the balance-sheet date, are cash and cash equivalents, cash held by the Trustee, as stated above, financial assets at fair value through profit and loss, and trade receivables.

The increase in the current assets derives from the recruitment of funds through a bond issue carried out by the Company during the third quarter of 2009.

### 3.3 Long-term debit balances and fixed assets

3.3.1. The balance of deferred tax assets totalled some NIS 35.2 million as on the balance-sheet date, compared with some NIS 31.8 million as on December 31, 2008. The increase in the deferred tax balance derived from an update of the Company Management's assessment regarding the possibility of utilizing accrued losses for tax purposes in the foreseeable future.

3.3.2 The balance of fixed assets as on the balance-sheet date totalled some NIS 7.7 million, compared with about NIS 6.1 million on December 31, 2008. The increase derived mainly from purchases of fixed assets, which were carried out in the Company's operating segments during the period, net of recorded depreciation expenses.

3.3.3 On the balance-sheet date, the Company recognized goodwill at the sum of about NIS 22.0 million, like 22.0 at the end of 2008.

3.3.4 The balance of other intangible assets as on the balance-sheet date totalled some NIS 132.3 million, and included intangible assets acquired within the scope of the acquisition of the operations from Suny Electronics at the third quarter of 2008. As of December 31, 2008, the balance totalled some NIS 145.6 million.

The decline in the balance of the other intangible assets derived mainly from the current amortization of the intangible assets belonging to the various operating segments.

### 3.4 Current Liabilities

As of September 30, 2009 the current liabilities amounted to NIS 244.2 million, compared to NIS 97.7 million on December 31, 2008. The

majority of the Company's liabilities are current liabilities during the ordinary course of business to suppliers and other creditors. The Company also has liabilities on the balance-sheet date in respect of derivative financial instruments in which the Company invests, mainly for the purposes of protecting its investments in securities and its assets in foreign currency (mainly the USD) and payables in respect of a short sale of negotiable securities. In addition, the Company has a liability on the Balance-Sheet Date deriving from a declared dividend totalling some NIS 100 million, which was distributed to the Company's shareholders on October 25, 2009.

### 3.5 Long-term liabilities

Long-term liabilities as of September 30, 2009 amounted to NIS 1,488.1 million and related, for the most part, to the bonds issued by the Company for the purpose of recruiting financing to acquire the control of Partner. The long-term liabilities on December 31, 2008 also included only liability for severance pay in the amount of NIS 2.3 million.

### 3.6 Shareholders Equity

The shareholders equity as of September 30, 2009 total to NIS 1,091.7 million compared to NIS 1,275.1 at the end of 2008. The decline in equity derived mainly from the buy-back of shares of the Company, at the inclusive total of some NIS 283.7 million during the first half of 2009, including a buy-back during the first quarter of 2009 at the sum of about NIS 275.3 million from Tao Tsuot Ltd., a company controlled by the indirect controlling shareholder of the Company and the chairman of the Company's board of directors, Mr. Ilan Ben-Dov. and from the declaration of a dividend totalling some NIS 100 million during the third quarter of 2009, which reduced the balances of the Company's surpluses.

The reduction of the capital was offset by the volume of the Company's net profit during the first nine months of the year, which totalled some NIS 192.7 million.

#### **4. Liquidity and financial sources**

##### **4.1 Cash flows from operations**

The positive cash flows from operations during the report period amounted to NIS 75.7 million. The said sum derived mainly from the Company's operating profit during the Report Period, less unrealized profit from negotiable securities, as well as from changes in the operating assets and liabilities.

The cash flow from current operations during the nine-month period ended September 30, 2008 totalled some NIS 71.5 million, which included mainly a dividend received by PCH from ORL at the total of some NIS 37.8 million, and cash that derived from discontinuing operations at the total of some NIS 36.0 million (the latter sum derived from the receipt of a portion of the escrow funds relating to the sale of the operations of the subsidiary, Scailex Vision, to HP, less the tax payments in respect of the funds received).

##### **4.2 Cash flow from investing activities**

The cash used in investment activities during the report period totalled some NIS 1,678.6 million. The flow is comprised mainly of the funds from the bond recruitment that the Company executed as part of its recruitment of financing to acquire the control of Partner, which were deposited in weekly deposits with a trustee until the transaction was consummated, and from net investments (purchases less sales) in negotiable securities totalling some NIS 94.6 million. The cash that derived from investment activities during the nine months ended September 30, 2008 totalled some NIS 304.4 million. This sum relates mainly to the proceeds from the sale of PCH, less the acquisition of Suny's cellular operations, and to purchases of negotiable securities.

##### **4.3 Cash flows from financing activities**

The cash that derived from financing activities during the Report Period totalled some NIS 1,212.4 million, the majority of which derived from the sum of money recruited through the offering of bonds of the Company, less the issue expenses that the Company incurred, totalling some NIS 13 million. The cash used in financial activities during the nine-month

period ended September 30, 2008 totalled some NIS 173.5 million, and was divided between the payment of a dividend to the Company's shareholders at the sum of about NIS 150.0 million, the payment of a dividend to the minority shareholders of a subsidiary at the sum of about NIS 23.5 million and buy-backs of Company shares totalling some NIS 19.6 million.

#### 4.4 Cash, Cash Equivalents and Marketable Securities

The cash, cash equivalents and marketable securities (not including shorts and derivatives) balance as of September 30, 2009 was NIS 800.3 million (of which, some NIS 34 million are used as liquid collateral to guarantee the repayment of documentary credit in respect of the importing operations carried out by the Company), compared to December 31, 2008 in which the balance amounted to NIS 966.8 million (of which, some NIS 46.2 million are used as liquid collateral to guarantee the repayment of documentary credit in respect of the importing operations carried out by the Company).

The Company is entitled to make use of the aforesaid liquid collateral, at any time, subject to an adjustment of the rates in respect of the documentary credit to a level that is acceptable to the bank that is providing the credit.

On the Balance-Sheet Date, the Company has additional cash balances totalling some NIS 1,498.9 million, which were recruited through the offering of bonds of the Company on the Tel-Aviv Stock Exchange, and deposited with a trustee until the consummation of the acquisition transaction of the control of Partner. In addition, there is an advance at the sum of about NIS 96.4 million, which was paid within the scope of the signing of the acquisition agreement of the control of Partner.

#### 4.5 Bank and Nonbank Liabilities

The Company's credit balances as on November 4, 2009:

	USD-linked balances		Index-linked balances		Unlinked balances	
	NIS millions	Interest weighted %	NIS millions	Interest weighted %	NIS millions	Interest weighted %
Short-term liability to a banking corporation*	–	–	–	–	1,000.8	3.89%
Negotiable bonds	–	–	997.7	4.96%	910.2	5.69%
Long-term liability to a third party**	1,138.0	2.027%	–	–	–	–

\* Some NIS 800 million of the short-term liabilities to banking corporations are for one-month renewable periods. These liabilities were within the scope of financing the acquisition of the control of Partner. A portion of the Partner shares were pledged to secure these credit lines at the value of the acquisition price of Partner shares by the Company. The interest in respect of these loans is prime + 1.8%. An additional NIS 200 million were provided to the Company as a credit framework, for which balances of trade receivables and inventory were pledged at the height of the utilized framework. This credit bears interest at prime + 1%.

\*\* The said credit is dollar credit for 4.5 years, bearing interest at 2.027% per annum, which was provided by Advent within the scope of the acquisition agreement of the control of Partner.

### 5. Critical accounting estimates

The critical accounting estimates that the Company used in the financial statements attached hereto are identical to those specified in clause 14 of the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008.

### 6. Commitments and substantial events during the report's period

6.1 On July 1, 2009, the Company's board of directors resolved that the Company's donations budget in 2009 shall total NIS 3 million, compared with a budget of NIS 1 million in 2008 (see notes 6.4.3 and 9 in this report).

- 6.2 On July 8, 2009, the Company submitted a nonbinding, general and indicative offer for the acquisition of the control core in Partner Communications Ltd. ("Partner"). On August 5, 2009, the Company submitted a binding offer to acquire the control core in Partner.

On August 12, 2009, an agreement was signed between the Company and Advent Investment Pte Ltd., a Singapore company controlled by Hutchison Telecommunications International Ltd. ("Advent agreement"), for the acquisition of 78,940,104 ordinary shares of NIS 0.01 par value each of Partner, which constituted, correct to the signing date of the agreement, some 51.31% of Partner's issued and paid-up share capital (some 49.35% fully diluted), for the consideration of about NIS 67.025 (some USD 17.5) per share of Partner, for an inclusive consideration totalling some NIS 5.29 billion (some USD 1.38 billion). For further particulars, see the Immediate Report published by the Company on August 13, 2009, which describes the Advent agreement extensively and in detail, as well as additional matters pertaining to this agreement (reference no.: 2009-01-195681). This reference constitutes inclusion by way of referral.

On October 28, 2009, the Advent Agreement was executed and consummated, in accordance with its conditions – see clause 7.13 hereunder.

- 6.3 On August 10, 2009, the consent took effect between the Company and Samsung Electronics Ltd. ("**Samsung**") to extend the validity of the agreement under which the Company distributes Samsung GSM-network cellular handsets, by one year, until August 31, 2010 ("**the GSM Agreement**").

For further particulars regarding the GSM Agreement, see clause 4.4.17.2 of Part A. of the Company's Annual and Periodic Report for 2008, which was published on March 17, 2009 (reference no.: 2009-01-060333). This reference constitutes inclusion by way of referral).

- 6.4 On August 16, 2009, an extraordinary general assembly of the Company approved the following resolutions:
- (a) the granting of 40,000 unlisted options, for no consideration, which mature over four years and are exercisable into up to 40,000 ordinary registered shares of NIS 0.12 par value each of the Company, for the consideration of a strike price equivalent to NIS 35 per share, to Mr. Shachar Landau, the manager of the end-customer segment in the Company and the C.E.O. of Suny Electronics Ltd., the controlling shareholder of the Company;
  - (b) the granting 5,000 unlisted options, for no consideration, which mature over four years and are exercisable into up to 5,000 ordinary registered shares of NIS 0.12 par value each of the Company, for the consideration of a strike price equivalent to NIS 35 per share, to Ms. Smadar Levy, an employee of the controlling shareholder of the Company, Suny Electronics Ltd., who serves as the office manager of the chairman of the Company's board of directors and the chairman of Suny Electronics' board of directors, Mr. Ilan Ben-Dov;
  - (c) a donation of up to NIS 3 million to entities related to Derech HaLotus Ltd., a public benefit company, in which the chairman of the Company's board of directors and indirect controlling shareholder therein, Mr. Ilan Ben-Dov, is the sole shareholder, director, founder and donator;
  - (d) the granting of 18,000 unlisted options, for no consideration, which mature over four years and are exercisable into up to 18,000 ordinary registered shares of NIS 0.12 par value each of the Company, for the consideration of a strike price equivalent to NIS 35 per share, to each of the offerees hereunder, who are holding office as directors of the Company and who are not external public directors: Ms. Iris Beck (who notified that she is resigning her office as a director of the Company; see clause 6.13 of the report), Mr. Shalom Singer, Mr. Arie Ovadia and Mr. Yehiel Feingold (a total of 72,000 options);

- (e) the Company's engagement in a liability insurance policy for the directors and officeholders who are and shall be holding office from time to time in the Company and in its subsidiaries (with the exception of Mr. Ilan Ben-Dov, the chairman of the board of directors and the indirect controlling shareholder of the Company), for 12 months commencing July 1, 2009, for a total coverage of up to USD 15 million and for a premium that shall not exceed USD 25 thousand, plus legal expenses, in Israel only, at the rate of 20% of the said total coverage;
- (f) The purchase of an officeholders' run-off liability insurance policy, which shall cover the liability of those directors and officeholders who held office in Scailex and in its subsidiaries during the period from June 30, 2008 until June 30, 2009 (with the exception of the chairman of the Company's board of directors and indirect controlling shareholder therein, Mr. Ilan Ben-Dov), for three years as of June 30, 2009. It should be noted in this context that, subsequent to the receipt of the General Assembly's approval for the purchase of the said policy, the Company purchased a policy, which shall be in effect for three years as of June 30, 2009, with a total cover of USD 10 million, and at a premium of about USD 50 thousand.
- (g) an increase in the Company's registered share capital by 190,000,000 ordinary shares at a par value of NIS 0.12 each, so that the Company's registered share capital shall reach a total of NIS 30,000,000, divided into 250,000,000 ordinary shares at a par value of NIS 0.12 each, as well as an amendment to the Company's Memorandum of Association and Articles of Association in accordance with this resolution.

For further particulars about the topics on the agenda of the extraordinary general assembly of the Company, which convened on August 16, 2009, and about the results of this general assembly, see the Immediate Report published by the Company on July 2, 2009 regarding the summoning of a general assembly (reference no.: 2009-01-160248); the Amended Immediate Report published by the Company on July 12,

2009 regarding the summoning of a general assembly (reference no.: 2009-01-167037); and the Immediate Report of the results of an assembly for the approval of a transaction with a controlling shareholder and/or for the approval of a private offer, which was published by the Company on August 16, 2009 (reference no.: 2009-01-198612). These references constitute inclusion by way of referral.

- 6.5 On August 20, 2009, the Company published a Supplementary Report, which included clarifications, supplements and addenda to the Company's Annual Report for 2008 and to the Quarterly Report for the first quarter of 2009. For further particulars, see the Immediate Report dated August 20, 2009 (reference no.: 2009-01-203601. This reference constitutes inclusion by way of referral).
- 6.6 On August 21, 2009, after having received a permit from the Securities Authority and approval in principle from the Tel-Aviv Stock Exchange Ltd., the Company published a shelf prospectus for securities of the Company. Prior to publishing the Shelf Prospectus, the Company published a Supplementary Report to the Periodic Report, as stated above in clause 6.5.
- 6.7 On August 21, 2009, the Company engaged in an agreement ("Leumi Agreement") with Bank Leumi le-Israel Ltd. ("Leumi Bank"), under which Leumi Bank shall acquire 7,677,037 shares of Partner from the Company, which constituted, correct to the signing date of the agreement, some 4.99% of Partner's issued and paid-up share capital (not fully diluted and after neutralizing dormant shares), immediately subsequent to the acquisition from Advent, as specified above in clause 6.2, and at the same price per share.

Within the scope of the agreement, the Company granted an option to Leumi Bank for the purchase of convertible bonds of the Company (see clause 7.8 regarding the exercise of this option). For further particulars about the said agreement, see the Immediate Report published by the Company on August 23, 2009 (reference no. 2009-01-204756). This reference constitutes inclusion by way of referral. The said agreement was executed and consummated on October 28, 2009 – see clause 7.12

hereunder.

- 6.8 On August 26, 2009, the Company reported in an Immediate Report that Tapuz People Ltd., a company controlled by Suny Electronics Ltd., the Company's controlling shareholder, had returned the sum of approximately NIS 1,152 thousand to the Company. For additional particulars, see the Immediate Report dated August 26, 2009 (reference no.: 2009-01-210192; this reference constitutes inclusion by way of referral). See clause 6.15 regarding the approval of the engagement with Tapuz.
- 6.9 On September 3, 2009, the Company published an Immediate Report containing the results of the preliminary tender to classified investors for the purpose of receiving advance commitments prior to the public offering of securities pursuant to a shelf offering report pursuant to the Company's Shelf Prospectus dated August 21, 2009 (reference no.: 2009-01-221964).
- 6.10 On September 6, 2009, the Company published a shelf offering report ("**the Initial Shelf Offering Report**") pursuant to the Shelf Prospectus dated August 21, 2009, under which the public was offered four series of bonds of the Company – Series A Bonds, Series B Bonds, Series C Bonds and Series 1 Bonds. For particulars about the conditions of the offered bonds, see the Initial Shelf Offering Report – reference no. 2009-01-223746. On September 8, 2009, the Company published an Immediate Report containing the results of the offering pursuant to the Initial Shelf Offering Report – for additional particulars, see the Immediate Report dated September 8 – reference no.: 2009-01-226443 (this reference constitutes inclusion by way of referral).
- 6.11 On September 21, 2009, the Company published an Immediate Report in which it reported that a portion of the suspending conditions had been fulfilled for the execution of the Advent Agreement – the receipt of the conditional consent of the Antitrust Commissioner and approval of the transaction by the shareholders of the indirect parent company of the vendor. For additional particulars, see the Immediate Report dated September 21, 2009 (reference no.: 2009-01-236556; this reference

constitutes inclusion by way of referral).

- 6.12 On September 30, 2009, the Company's board of directors passed a resolution regarding the payment of a dividend at the volume of some NIS 100 million to the Company's shareholders. The distribution was carried out on October 25, 2009 (the payment date). For additional particulars, see the Immediate Reports dated September 30, 2009 (reference no.: 2009-01-244872), and dated October 1, 2009 (reference no.: 2009-01-244977). These references constitute inclusion by way of referral.
- 6.13 On September 30, 2009, Ms. Iris Beck ceased to hold office as a director of the Company. For additional particulars, see the Immediate Report dated September 30, 2009 (reference no.: 2009-01-244851).
- 6.14 On September 30, 2009, the Company's audit committee and board of directors approved the inclusion of the chairman of the Company's board of directors and the indirect controlling shareholder of the Company, Mr. Ilan Ben Dov, in a periodic officeholders' liability insurance policy and in a run-off officeholders' liability insurance policy, having the same wording and the same conditions as those appearing in the said policies relative to all of the other officeholders to whom they apply. For additional particulars, see the Immediate Report dated September 30, 2009 (reference no.: 2009-01-244869; this reference constitutes inclusion by way of referral).
- 6.15 On September 30, 2009, the Company's board of directors approved the Company's engagement in two agreements with Tapuz People Ltd., a company indirectly controlled by the Company's controlling shareholder, Suny Electronics Ltd.: an agreement for the receipt of website advertising and storage services and an agreement for the provision of maintenance services. On that same date, the Company's board of directors also approved the payment of an advance commitment commission to a company controlled by the chairman of the Company's board of directors and the indirect controlling shareholder therein – Mr. Ilan Ben Dov, in accordance with the conditions appearing in the Initial Offering Report. For additional particulars, see the Immediate Report

dated September 30, 2009 (reference no.: 2009-01-244875; this reference constitutes inclusion by way of referral).

## **7. Events subsequent to the balance-sheet date**

- 7.1 On October 4, 2009, an agreement was signed between the Company and Migdal Insurance Company Ltd. ("**Migdal**") ("**the Migdal Agreement**"), under which Migdal shall acquire 1,044,387 ordinary shares of NIS 0.01 par value each of Partner from the Company (in this clause: "**the Shares Being Sold**"), which constituted, correct to the signing date of the agreement, about 0.68% of Partner's issued and paid-up share capital (not fully diluted and after neutralizing dormant shares). The Shares Being Sold are part of the 78,940,104 ordinary shares of Partner in respect whereof the Company had engaged in the Advent Agreement. For additional particulars, see the Company's Immediate Report dated October 4, 2009 (reference no.: 2009-01-247641; this reference constitutes inclusion by way of referral). The Migdal Agreement was executed and consummated on October 28, 2009 – see clause 7.13 hereunder.
- 7.2 On October 4, 2009, Midroog Ltd. ("**Midroog**") published a rating report in which it assigned an A3 rating to the Series 1 Bonds, the Series A Bonds, the Series B Bonds and the Series C Bonds of the Company, which were issued pursuant to the Initial Shelf Offering Report. For additional particulars, see the Immediate Report dated October 4, 2009 (reference no.: 2009-01-247470; this reference constitutes inclusion by way of referral).
- 7.3 On October 5, 2009, Maalot, the Israeli Securities Rating Company Ltd. ("**Maalot**") published a rating report in which it assigned an A– rating with a stable outlook to the Series 1 Bonds, the Series A Bonds, the Series B Bonds and the Series C Bonds of the Company, which were issued pursuant to the Initial Shelf Offering Report. For additional particulars, see the Immediate Report dated October 5, 2009 (reference no.: 2009-01-247938; this reference constitutes inclusion by way of referral).

- 7.4 On October 8, 2009, Maalot announced that it had assigned an A– rating (with a stable outlook) on that day to the expansion of the Series A and Series C Bonds of the Company and/or to a new series of bonds at the inclusive volume of up to NIS 400 million. For additional particulars, see the Immediate Report dated October 8, 2009 (reference no.: 2009-01-249960; this reference constitutes inclusion by way of referral).
- 7.5 On October 13, 2009, an agreement was signed between the Company and Excellence Nessuah Brokerage Services Ltd. (“**Excellence**”) (“**the Excellence Agreement**”) under which Excellence shall purchase 980,000 ordinary shares of NIS 0.01 par value each of Partner from the Company (in this clause “**the Shares Being Sold**”), which constitute about 0.64% of Partner’s issued and paid-up share capital (not fully diluted and after neutralizing dormant shares). The Shares Being Sold are part of the 78,940,104 ordinary shares of Partner in respect whereof the Company had engaged in the Advent Agreement. The shares were acquired by Excellence with the intention of selling them to a foreign institutional body.
- For additional particulars, see the Company’s Immediate Report dated October 13, 2009 (reference no.: 2009-01-253761; this reference constitutes inclusion by way of referral). The Excellence Agreement was executed and consummated on October 28, 2009 – see clause 7.13 hereunder.
- 7.6 On October 13, 2009, the Company published a presentation to investors prior to the planned offering pursuant to the Shelf Prospectus dated August 21, 2009. For additional particulars, see the Immediate Report dated October 13, 2009 (reference no.: 2009-01-254127; this reference constitutes inclusion by way of referral).
- 7.7 On October 14, 2009, the Company published a shelf offering report (“**the Second Shelf Offering Report**”) pursuant to the Shelf Prospectus dated August 21, 2009, under which the public was offered a new series of bonds – Series D Bonds. For particulars about the conditions of the offered Series D Bonds, see the Second Shelf Offering Report dated October 14, 2009, reference no.: 2009-01-254415, as well as the

Supplementary Report to the Shelf Offering Report (which was subsequently amended) dated October 25, 2009 (reference no.: 2009-01-264342).

On October 15, 2009, the Company published an Immediate Report of the results of the offering pursuant to the Second Shelf Offering Report. For additional particulars, see the Immediate Report dated October 15, 2009 (reference no.: 2009-01-256965; this reference constitutes inclusion by way of referral).

- 7.8 On October 18, 2009, Leumi Bank delivered notice to the Company requesting to exercise the option granted it in the Leumi Agreement for the purchase of convertible bonds of the Company. Accordingly, Leumi Bank requested that a par value of NIS 102,705,270 of Series 1 Bonds of the Company be allotted to Leumi Partners Ltd. ("**Leumi Partners**"), a wholly owned subsidiary of Leumi Bank. For additional particulars, see the Immediate Report published by the Company on October 18, 2009 (reference no.: 2009-01-258492; this reference constitutes inclusion by way of referral).
- 7.9 On October 20, 2009, Maalot announced that it had assigned an A- rating (with a stable outlook) to the expansion of the Series 1 Bonds in circulation, at the inclusive volume of some NIS 103 million. For additional particulars, see the Immediate Report published on October 20, 2009 (reference no.: 2009-01-260403; this reference constitutes inclusion by way of referral).
- 7.10 On October 21, 2009, the Company published a private offering report, in which a par value of NIS 102,705,270 of Series 1 Bonds of the Company were offered to Leumi Partners by way of an expansion of the Series 1 Bonds, and at the price of NIS 1.002 for each NIS 1 par value. For additional particulars, see the private offering report, as amended on October 22, 2009 (reference no.: 2009-01-263160; this reference constitutes inclusion by way of referral).
- 7.11 On October 28, 2009, the approvals of the Minister of Communications and the Director-General of the Ministry of Communications were received for the transfer of the means of control of Partner to Scailex,

under conditions specified in the said approvals. For additional particulars, see the amended Immediate Report dated October 28, 2009 (reference no.: 2009-01-267972; this reference constitutes inclusion by way of referral).

- 7.12 On October 28, 2009, the Company and Clal Finance Trust 2007 Ltd. (“**the Trustee**”) signed amendments to the trust deeds of the Series A Bonds, the Series B Bonds, the Series C Bonds and the Series D Bonds of the Company, which derived mainly from the approvals of the Ministry of Communications specified above in clause 7.10. For particulars, see the Immediate Report dated October 28, 2009 (reference no.: 2009-01-267387).
- 7.13 On October 28, 2009, the Advent Agreement was executed and consummated in accordance with its conditions. In consideration of the Partner Shares Being Acquired, the Company paid Advent the inclusive sum of NIS 5,294,395,921. Simultaneously with the consummation of the Advent Agreement, the agreements under which the Company sold Partner shares to third parties – the Leumi Agreement, the Migdal Agreement and the Excellence Agreement (jointly: “**the Sale Agreements**”) were also consummated in accordance with their conditions.

Subsequent to the consummation of the Advent Agreement and the Sale Agreements, correct to the date of this Report, Scailex is holding 69,238,680 Partner shares, which constitute some 44.92% of Partner’s issued and paid-up share capital and voting rights, not fully diluted (disregarding dormant shares held by Partner itself), and 43.34% of Partner’s issued and paid-up share capital on a fully diluted basis (disregarding dormant shares held by Partner itself).

According to data furnished to the Company by the Company’s controlling shareholder, Suny, correct to the date of this Report, Suny is holding about 0.67% of Partner’s issued and paid-up share capital (not fully diluted and disregarding dormant shares held by Partner), so that, together with an interested party therein, Suny, the Company is holding 45.59% of Partner’s issued and paid-up share capital (not fully diluted

and disregarding dormant shares held by Partner) and 43.99% on a fully diluted basis, of which, 17,225,740 shares, constituting 21% of Partner's issued share capital on a fully diluted basis, are control core shares of Partner.

For additional particulars about the consummation of the Advent Agreement, including the method of financing of the acquisition of the shares being acquired, the sureties and pledges that the Company provided within the scope of the financing agreements, as well as about the consummation of the Sale Agreements, see the Immediate Report published by the Company on October 29, 2009 (reference no.: 2009-01-268353; this reference constitutes inclusion by way of referral).

- 7.14 Prior to the consummation of the Advent Agreement, and in conformity with the instructions in the Antitrust Commissioner's approval (mentioned above in clause 6.11), on October 28, 2009, the Company issued a termination notice to Cellcom Israel Ltd., in which it irrevocably notified of the termination of the agreements between Cellcom and the Company's end-customer segment ("**Dynamica**") as of July 1, 2010, unless an earlier date shall be agreed upon. Subsequent to the said date, no services whatsoever shall be provided by the Company that relate to the activity of this segment as a distributor, marketer or seller on behalf of Cellcom. The Company clarified that that notice in no way terminates the sales of Samsung devices, accessories and laboratory services to Cellcom.

## **8. Remunerations**

No material change occurred during the Report Period in relation to any matter pertaining to remunerations to interested parties in the Company and to remunerations to senior officeholders in the Company or in companies under its control, compared with that described in the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008, with the exception of regarding the allotment of options to employees and officeholders, as specified above in clauses 6.4.1, 6.4.2 and 6.4.4. Regarding the board of directors' rationale for

approving the granting of the said options, see clauses 11 and 21 of the Immediate Report published by the Company on July 2, 2009 (reference no.: 160248; this reference constitutes inclusion by way of referral).

#### **9. Policy of charitable donations**

On July 1, 2009, the Company's board of directors resolved that the Company's donations budget for the year 2009 shall be NIS 3 million, compared with a budget of NIS 1 million in 2008. Regarding the resolution to donate up to NIS 3 million to Lotus, see clause 6.4.3 above. It should be noted that the Company actually donated during the period of the report a total of some NIS 2,225 thousand.

#### **10. Qualitative report on the exposure to market risks and their management**

The Company expanded its overall investment portfolio during the Report Period. As on the report date, investments in securities include shares, government bonds and concern bonds in ILS and USD, and positions in derivatives for hedging against economic exposure. Subsequent to the Balance-Sheet Date, following the acquisition of Partner, the reduction of the Company's securities portfolio and the increase in the Company's credit frameworks, the Company convened a meeting of the Company's investment committee for the purpose of re-examining how the cash balances held by the Company should be invested, and the committee assessed the market risks to which the Company is exposed subsequent to the acquisition, as well as the need to implement means of hedging against the Company's exposures to interest in Israel, to the consumer price index and to the exchange rate of the U.S. dollar.

In light of that stated, the Company's investment committee passed a resolution to implement means of hedging against the exchange rate of the U.S. dollar in order to minimize the Company's exposure to fluctuations in the dollar rate, in relation to the dollar loan that the Company received from Advent within the scope of its acquisition of the control of Partner, and this by way of forward transactions and options. The Company is active in the capital market in

conformity with the framework approved and periodically reapproved by the Company's investment committee, and, accordingly, supervisory and control mechanisms are also put into place.

10.1 The person responsible for management of market risk for the company

The person responsible for management of market risk for the company is Mr. Shachar Rachim – company CFO.

10.2 Market risk to which the company is exposed

Since the end of the 2008 report year and up until the date of this report, no material changes occurred in the market risks to which the Company is exposed, compared with that described in clause 9.2 of the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008, and according to the Company's definitions to any matter pertaining to the risk to which the Company was exposed as a result of the expansion of its activity in the capital market, and as a result of the Company initializing activity in derivatives (including options, futures contracts and short sales).

Upon acquiring the control of Partner and the increase in the Company's credit, a change occurred in the risks to which the Company is exposed, due to its becoming a borrowing company. Depending upon the Company's various types of credit, it is exposed to fluctuations in the interest rates in Israel, to changes in the consumer price index and to fluctuations in the exchange rate of the U.S. dollar. The Company resolved to implement hedging against these exposures using options, futures contracts and short sales.

The hedging activity, by way of options, futures contracts and short sales, exposes the Company to influences that might impact the Company's cash flows.

### 10.3 Company policy on market risk management

Since the end of the 2008 and up until the date of this report, no material change occurred in the Company's market risk management policy, compared with that described in clause 9.3 of the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008, except in relation to any matter pertaining to the Company's policy for supervising the risk deriving from the Company's expanded activity in the capital market. This required the formulation of investment definitions by the Company's Investment Committee and the performance of frequent monitoring and supervision in order to hedge the Company's exposures and to efficiently manage the market risks (inter alia, by daily management of the investments using designated systems, by performing internal controls and by operating according to procedures, as well as by the performance of periodic analyses and reports.

Subsequent to the Balance-Sheet Date, and upon acquiring the control of Partner, the Company became a company with large credit balances, and its liquid cash balances began to decline.

Accordingly, the Company is examining how it should invest the cash balances it is holding in order to maximize the yield on them without taking significant risks; furthermore, the Company is currently formulating strategies for hedging against the Company's exposures to interest rates in Israel, to the consumer price index and to the exchange rate of the U.S. dollar. As on the Report date, the Company is already implementing hedging against the dollar exchange rate at the inclusive sum of about USD 91 million.

### 10.4 Supervision of market risk management policy and its implementation

Since the end of the 2008 and up until the date of this report, no material change occurred in the Company's supervision of its market risk management policy and the implementation thereof, compared with that described in clause 9.4 of the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008, except in relation to any matter pertaining to the risk deriving from the Company's

expanded activity in the capital market, which required frequent reporting to the Company's Investment Committee, the performance of controls and analyses of the investment portfolio by the Company's Management, the definition of procedures and supervision of the compliance therewith, as well as the maintaining of proper documentation, which enables detailed internal monitoring of the investments and of the financial hedging activities.

Due to the fact that, on the date of this Report, the Company has large credit balances, the Company resolved to implement means of hedging against its dollar exposures and to frequently update them according to changes, and the situation of the dollar, and the expectations regarding its behavior. The risk manager in the Company, in collaboration with the investment manager, shall monitor the said hedging mechanisms and their efficacy and shall report on them periodically to the investment committee. In the event of an exceptional event in the foreign currency market, the investment committee shall convene immediately in order to make decisions in this regard. Regarding additional exposures reviewed above, the implementation of operative actions at this stage has not been decided, since the exposure in respect thereof was assessed to be relatively low.

## 10.5 The Company's linkage bases

September 30, 2009:

	<u>Unlinked</u>	<u>CPI-linked</u>	<u>In or linked to USD</u>	<u>Marketable securities</u>	<u>Non-monetary items</u>	<u>Total</u>
<b><u>Assets</u></b>						
Cash and cash equivalents	502,825	-	7,049	-	-	509,874
Short-term investments	-	-	-	290,376	-	290,376
Cash held by a trustee	1,498,858	-	-	-	-	1,498,858
Partner deposit /advance	-	-	-	-	96,425	96,425
Trade receivables	72,525	-	96,461	-	-	168,986
Other receivables and debit balances	2,941	301	66	-	-	3,308
Inventory	-	-	-	-	58,227	58,227
Prepaid expenses	-	-	-	-	835	835
Deferred taxes	-	-	-	-	35,193	35,193
Fixed assets	-	-	-	-	7,665	7,665
Goodwill	-	-	-	-	21,990	21,990
Other assets	-	-	-	-	132,286	132,286
<b>Total</b>	<b>2,077,149</b>	<b>301</b>	<b>103,576</b>	<b>290,376</b>	<b>352,621</b>	<b>2,824,023</b>
<b><u>Liabilities</u></b>						
Declared dividend	(100,166)	-	-	-	-	(100,166)
Derivative financial instruments	-	-	-	(10,603)	-	(10,603)
Payables in respect of a short sale of negotiable securities	-	-	-	(41,512)	-	(41,512)
Trade payables	(14,324)	-	(48,749)	-	-	(63,073)
Creditors and accruals	(21,169)	(2,258)	(2,797)	-	-	(26,224)
Current liabilities relating to discontinued operations	(770)	(1,871)	-	-	-	(2,641)
Bonds	(773,951)	(712,726)	-	-	-	(1,486,677)
Severance pay, including adaptation grant	(1,424)	-	-	-	-	(1,424)
<b>Total</b>	<b>(911,804)</b>	<b>(716,855)</b>	<b>(51,546)</b>	<b>(52,115)</b>	<b>-</b>	<b>(1,732,320)</b>
<b>Net balance of balance sheet</b>	<b>1,165,345</b>	<b>(716,554)</b>	<b>52,030</b>	<b>238,261</b>	<b>352,621</b>	<b>1,091,703</b>

September 30, 2008:

	<u>In or linked to USD</u>	<u>In or linked to other foreign currency</u>	<u>CPI-linked</u>	<u>Unlinked</u>	<u>Marketable securities</u>	<u>Non- monetary items</u>	<u>Total</u>
<b><u>Assets</u></b>							
Cash and cash equivalents	58,442	963	503,012	-	-	-	562,417
Investments held until maturity	-	-	-	-	378,992	-	378,992
Trade receivables	66,264	-	48,349	-	-	-	114,613
Other receivables and debit balances	-	-	13,974	827	-	470	15,271
Inventory	-	-	-	-	-	27,050	27,050
Current assets relating to discontinued operations	1,061	-	-	-	-	-	1,061
Investments held until maturity, long-term	11,013	-	-	-	-	-	11,013
Prepaid expenses	-	-	-	-	-	770	770
Reserve for severance pay, net	-	-	690	-	-	-	690
Deferred taxes	-	-	-	-	-	25,638	25,638
Fixed assets	-	-	-	-	-	5,880	5,880
Other assets	-	-	-	-	-	429	429
Goodwill	-	-	-	-	-	165,665	165,665
<b>Total</b>	<b>136,780</b>	<b>963</b>	<b>566,025</b>	<b>827</b>	<b>378,992</b>	<b>225,902</b>	<b>1,309,489</b>
<b><u>Liabilities</u></b>							
Suppliers and service-providers	58,109	-	3,802	-	-	-	61,911
Creditors and accruals	3,194	-	10,405	-	-	-	13,599
Current liabilities relating to discontinued operations	8,954	-	1,661	24,665	-	-	35,280
<b>Total</b>	<b>70,257</b>	<b>-</b>	<b>15,868</b>	<b>24,665</b>	<b>-</b>	<b>-</b>	<b>110,790</b>
<b>Net balance of balance sheet</b>	<b>66,523</b>	<b>963</b>	<b>550,157</b>	<b>(23,838)</b>	<b>378,992</b>	<b>225,902</b>	<b>1,198,699</b>

## 10.6 Sensitivity tests

### *Market risk sensitivity analysis*

The table below specifies the Company's financial instruments as on September 30, 2009, which are sensitive to the market risks involved therein. The instruments that are sensitive to various market risks will be presented numerous times, according to the sensitivity analysis of each of the risks.

#### 1. *Sensitivity to fluctuations in the USD/NIS exchange rate (in NIS thousands)*

The sensitivity analysis is based on the exchange rate as on September 30, 2009, which was NIS 3.758 per USD 1.

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10% in the exchange rate	Rise of 5% in the exchange rate		Decline of 5% in the exchange rate	Decline of 10% in the exchange rate
<b>The sensitive instrument</b>					
Cash	704	353	7,049	(353)	(705)
Securities *	5,792	2,897	57,929	(2,896)	(5,793)
Trade receivables	9,646	4,824	96,461	(4,824)	(9,646)
Other receivables	7	4	66	(3)	(7)
Suppliers	(4,875)	(2,438)	(48,749)	2,437	4,875
Other payables	(280)	(139)	(2,797)	140	280
Options on the USD – Put	(1,650)	(727)	(270)	251	270
<b>TOTAL:</b>	<b>9,344</b>	<b>4,774</b>	<b>109,689</b>	<b>(5,248)</b>	<b>(10,726)</b>

\* The securities include dollar bonds.

2. *Sensitivity to fluctuations in the NIS/GBP exchange rate (in NIS thousands)*

The sensitivity analysis is based on the exchange rate as on September 30, 2009, which was NIS 6.0472 per GBP 1.

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10% in the exchange rate	Rise of 5% in the exchange rate		Decline of 5% in the exchange rate	Decline of 10% in the exchange rate
<b>The sensitive instrument</b>					
Stock	46	23	458	(23)	(46)

3. *Sensitivity to fluctuations in the Consumer Price Index (in NIS thousands)*

The sensitivity analysis was performed using the rates of 0.1% and 0.2% in respect of a change in the CPI.

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 0.2% in the CPI	Rise of 0.1% in the CPI		Decline of 0.1% in the CPI	Decline of 0.2% in the CPI
<b>The sensitive instrument</b>					
Receivables	1	0	301	(0)	(1)
Current liabilities for discontinued operations	(4)	(2)	(1,871)	2	4
Short-term, index-linked government bond	23	11	11,403	(11)	(23)
Payables	(5)	(2)	(2,258)	2	5
Index-linked concern bonds <sup>1</sup>	(9)	(4)	(4,278)	4	9
Long-term, index-linked government bonds <sup>2</sup>	(60)	(30)	(29,814)	30	60
Scailex Series C Bond	(1,462)	(731)	(731,038)	731	1,462
<b>TOTAL:</b>	<b>(1,516)</b>	<b>(758)</b>	<b>(757,555)</b>	<b>758</b>	<b>1,516</b>

1. The Company has a short position (short sale) on a linked concern bond. The total fair value was presented as the net (short offset by long).
2. The Company has a short position on a linked government bond (Galil).

4. *Sensitivity to changes in the value of the securities portfolio (in NIS thousands)*

The total value of the Company's portfolio of securities as on September 30, 2009, is NIS 248,864 thousand (after neutralizing Maof and dollar options, for which a separate calculation was made).

The sensitive instrument – shares	Profit (loss) from the change			Fair value	Profit (loss) from the change		
	Rise of 15%	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%	Decline of 15%
	in the market value				in the market value		
Tel Aviv 25 Index	17,886	11,924	5,962	119,241	(5,962)	(11,924)	(17,886)

The sensitive instrument – shares	Profit (loss) from the change			Fair value	Profit (loss) from the change		
	Rise of 15%	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%	Decline of 15%
	in the market value				in the market value		
Tel Aviv 75 Index	276	138	69	1,381	(69)	(138)	(276)

The sensitive instrument – shares	Profit (loss) from the change			Fair value	Profit (loss) from the change		
	Rise of 15%	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%	Decline of 15%
	in the market value				in the market value		
Yeter	2,074	1,037	518	10,369	(518)	(1,037)	(2,074)

The sensitive instrument	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%
	in the market value			in the market value	
Bonds denominated in foreign currency having a low risk rating	1,196	599	599,815	(599)	(1,196)
Government bonds, short term	228	114	11,403	(114)	(228)
Government bonds, long term	(569)	(298)	(29,814)	298	596
<b>TOTAL:</b>	<b>828</b>	<b>415</b>	<b>41,404</b>	<b>(415)</b>	<b>(828)</b>

The sensitive instrument	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%
	in the market value			in the market value	
Linked shekel concern bonds	7,567	3,783	75,668	(3,783)	(7,567)
Share in foreign currency	46	23	458	(23)	(46)
Shekel option	34	17	343	(17)	(34)
<b>TOTAL:</b>	<b>7,647</b>	<b>3,823</b>	<b>76,469</b>	<b>(3,823)</b>	<b>(7,647)</b>

5. *Sensitivity to changes in the underlying asset – Maof options  
(in NIS thousands)*

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10% in the underlying asset	Rise of 5% in the underlying asset		Decline of 5% in the underlying asset	Decline of 10% in the underlying asset
The sensitive instrument					
Maof – sale of Call options	(17,554)	(8,055)	(10,333)	(5,722)	8,836

6. *Sensitivity to changes in the standard deviation – Maof options  
(in NIS thousands)*

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10% in the standard deviation	Rise of 5% in the standard deviation		Decline of 5% in the standard deviation	Decline of 10% in the standard deviation
The sensitive instrument					
Maof – sale of Call options	(602)	(300)	(10,333)	298	592

7. *Sensitivity to changes in the standard deviation – options on  
the USD (in NIS thousands)*

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10% in the standard deviation	Rise of 5% in the standard deviation		Decline of 5% in the standard deviation	Decline of 10% in the standard deviation
The sensitive instrument					
Options on the USD – Call sale	(25)	(12)	(270)	12	25

## 8. Analysis of the bonds held by the Company

*Sensitivity to fluctuations in the real interest rates (in NIS thousands)*

The sensitive instrument – shares	Profit (loss) from the change			Fair value	Profit (loss) from the change		
	Rise of 15%	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%	Decline of 15%
	in the real interest rates				in the real interest rates		
Debentures A	(68) <sup>1</sup>	(12)	(6)	830	6	12	94
Debentures B	(258) <sup>2</sup>	(114)	(57)	6,590	58	116	273
Debentures C		234	118	(11,698)	(119)	(241)	
<b>TOTAL:</b>	<b>(326)</b>	<b>108</b>	<b>55</b>	<b>(4,278)</b>	<b>(55)</b>	<b>(113)</b>	<b>367</b>

<sup>1</sup> Daily increase/decrease in excess of 10% reflects a change of about 65.96% in the real interest (deriving from a change of some 28.53% in the bond price that occurred on October 28, 2002).

<sup>2</sup> Daily increase/decrease in excess of 10% reflects a change of about 23.08% in the real interest (deriving from a change of some 8.61% in the bond price that occurred on September 21, 2008).

\* Bond 3 – short sale of a bond.

The sensitive instrument – shares	Profit (loss) from the change			Fair value	Profit (loss) from the change		
	Rise of 15%	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%	Decline of 15%
	in the real interest rates				in the real interest rates		
Debentures D		(1,138)	(574)	55,174	584	1,177	
Debentures E	(47) <sup>1</sup>	(11)	(5)	272	6	11	64
Debentures F	(578) <sup>2</sup>	(370)	(187)	12,152	191	387	621
Debentures G		(200)	(101)	12,348	102	205	
<b>TOTAL:</b>	<b>(625)</b>	<b>(1,719)</b>	<b>(867)</b>	<b>79,946</b>	<b>883</b>	<b>1,780</b>	<b>685</b>

<sup>1</sup> Daily increase/decrease in excess of 10% reflects a change of about 49% in the real interest (deriving from a change of some 32.52% in the bond price that occurred on December 1, 2008).

<sup>2</sup> Daily increase/decrease in excess of 10% reflects a change of about 15.83% in the real interest (deriving from a change of some 8.88% in the bond price that occurred on September 21, 2008).

9. Analysis of bonds issued by the Company

*Sensitivity to changes in real interest (in NIS thousands)*

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%
<b>The sensitive instrument – shares</b>	in the real interest rates			in the real interest rates	
SCIX.B3 bonds	8,629	4,334	(731,038)	(4,371)	(8,781)

10. *Sensitivity to changes in shekel interest (in NIS thousands)*

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%
<b>The sensitive instrument – shares</b>	in the real interest rates			in the real interest rates	
SCIX.B1 bonds	5,879	2,957	(353,369)	(2,996)	(6,027)

11. *Sensitivity to changes in market value (in NIS thousands)*

	Profit (loss) from the change		Fair value	Profit (loss) from the change	
	Rise of 10%	Rise of 5%		Decline of 5%	Decline of 10%
<b>The sensitive instrument – shares</b>	in the real interest rates			in the real interest rates	
SCIX.C1 bonds	10,343	5,171	(103,427)	(5,171)	(10,343)

The Company has another bond (SCIX.B2), bearing interest at a **variable** rate. Therefore a sensitivity analysis was not performed.

## 10.7 Positions in derivatives

On the balance-sheet date the Company was holding positions in derivatives.

With the aim of reducing the Company's exposure to volatility in the capital market in relation to its holdings of shares, the Company executes sales transactions of futures options against the Tel-Aviv 25 Index and short sales of shares included in the Tel-Aviv 25 Index. In addition, the Company transacts sales of futures contracts on foreign-currency balances it holds for hedging purposes. Furthermore, due to considerations of marketability, the Company opted to use the options instruments through sales of call options, put options and purchases of put options.

Derivatives as of September 30, 2009 (in NIS thousands):

<b>Name of the derivative</b>	<b>Transaction type</b>	<b>Expiration</b>	<b>Par value in NIS thousands</b>	<b>Fair value in NIS thousands</b>
Options on the Tel-Aviv 25 index	Call sale	29/10/09	(145,090)	(10,333)
NIS-USD options	Call sale	27/10/09	(11,124)	(270)

- The par value of the various derivatives is calculated according to the derivative's daily Delta, correct to September 30, 2009. The Delta may change according to the market conditions along the time axis.
- The inclusive fair value of the derivative positions on September 30, 2009 total a liability of some NIS 10.6 million.

## 11. Particulars about the corporation's bonds

11.1 Correct to the Balance-Sheet Date, the corporation had four series of bonds in circulation: Series A Bonds, Series B Bonds, Series C Bonds and Series 1 Bonds. Following are particulars, as required in the Eighth Addendum to the Securities Regulations (Periodic and Immediate Reports), 5730 – 1970 (“**the Regulations**”) regarding each of the said series of bonds:

Series	Series issue date	Total par value on the issue date	Current total par value	Par value after being revaluated according to the linkage conditions on the date of the Report	Total accrued interest as on 30.09.2009 (NIS '000)	Fair value of the series as included in the financial statements as on 30.09.2009 (NIS '000)	Stock exchange value as on 30.09.2009 (NIS '000)	Type of interest	Payment dates of the principal	Payment dates of the interest	Linkage basis and conditions	Are the bonds convertible into another security	The corporation's right to effect an early redemption or forced conversion of the bonds to other securities and the conditions for exercising the right	Description of the assets pledged to secure the bond
Series A Bonds	<u>07/09/2009</u> Pursuant to a shelf offering report dated 6/9/2009 and the shelf prospectus dated 21/08/2009	346.644.000	346,644,000	–	1,396	343,642	353,369	7.0% fixed annual interest	Six equal biannual payments of principal as of Sept. 2011 until March 2014	Biannual payment on 31/3 and 30/9 from 2010 to 2014	–	–		Sole, fixed, first-ranking lien (with a restriction on creating additional liens) on shares of Partner Communications Ltd. at 100% of the par value of the bonds (calculated according to

Series	Series issue date	Total par value on the issue date	Current total par value	Par value after being revaluated according to the linkage conditions on the date of the Report	Total accrued interest as on 30.09.2009 (NIS '000)	Fair value of the series as included in the financial statements as on 30.09.2009 (NIS '000)	Stock exchange value as on 30.09.2009 (NIS '000)	Type of interest	Payment dates of the principal	Payment dates of the interest	Linkage basis and conditions	Are the bonds convertible into another security	The corporation's right to effect an early redemption or forced conversion of the bonds to other securities and the conditions for exercising the right	Description of the assets pledged to secure the bond
														NIS 73.528 per Partner share)**
Series B Bonds	<b>07/09/2009</b> Pursuant to a shelf offering report dated 6/9/2009 and the shelf prospectus dated 21/08/2009	350,577,000	350,577,000	–	988	347,347	349,034	Variable annual interest of 3% above the interest on a short-term gov't. bond	Six equal biannual payments of principal as of June. 2011 until Dec. 2014	Quarterly payment on 31/12, 31/3, 30/6 and 30/9 from 12/2009 until 2013	–	–		Sole, fixed, first-ranking lien (with a restriction on creating additional liens) on shares of Partner Communications Ltd. at 100% of the par value of the bonds (calculated according to NIS 73.528 per Partner share)**

Series	Series issue date	Total par value on the issue date	Current total par value	Par value after being revaluated according to the linkage conditions on the date of the Report	Total accrued interest as on 30.09.2009 (NIS '000)	Fair value of the series as included in the financial statements as on 30.09.2009 (NIS '000)	Stock exchange value as on 30.09.2009 (NIS '000)	Type of interest	Payment dates of the principal	Payment dates of the interest	Linkage basis and conditions	Are the bonds convertible into another security	The corporation's right to effect an early redemption or forced conversion of the bonds to other securities and the conditions for exercising the right	Description of the assets pledged to secure the bond
Series C Bonds	<b>07/09/2009</b> Pursuant to a shelf offering report dated 6/6/2009 and the shelf prospectus dated 21/08/2009	709,332,000	709,332,000	–	2,009	706,624	731,038	4.9% fixed annual interest linked to the CPI	Six equal biannual payments of principal as of June 2011 until Dec. 2014	Biannual payment on 30/6 and 31/12 from 2010 to 2014	Linked to the CPI (base index 07/09)	–		Sole, fixed, first-ranking lien (with a restriction on creating additional liens) on shares of Partner Communications Ltd. at 100% of the par value of the bonds (calculated according to NIS 73.528 per Partner share)**

Series	Series issue date	Total par value on the issue date	Current total par value	Par value after being revaluated according to the linkage conditions on the date of the Report	Total accrued interest as on 30.09.2009 (NIS '000)	Fair value of the series as included in the financial statements as on 30.09.2009 (NIS '000)	Stock exchange value as on 30.09.2009 (NIS '000)	Type of interest	Payment dates of the principal	Payment dates of the interest	Linkage basis and conditions	Are the bonds convertible into another security	The corporation's right to effect an early redemption or forced conversion of the bonds to other securities and the conditions for exercising the right	Description of the assets pledged to secure the bond
Series 1 Bonds <sup>1</sup>	<b>07/09/2009</b> Pursuant to a shelf offering report dated 6/9/2009 and the shelf prospectus dated 21/08/2009	205,311,270 <sup>2</sup>	205,311,270	–	236	101,908	103,427	4.0% fixed annual interest	31 Dec. 2024	Biannual payment on 30/6 and 31/12 from 2010 to 2014	–	Convertible into shares of the Company <sup>3</sup>	The Company may announce a full forced early redemption in 2014 <sup>4</sup>	–

<sup>1</sup> Subsequent to the Balance-Sheet Date, on 25/10/2009, the series was expanded through a private offering of a par value of NIS 102,705,270 of Series 1 Bonds to Leumi Partners Ltd. See clause 7.10 of this Report.

<sup>2</sup> The total par value includes the par value from the date of the initial offering plus the par value of the Series 1 Bonds issued within the scope of the expansion of the series, as stated above in clause 7.10.

<sup>3</sup> Until 05/09/2014, the Bonds are convertible into ordinary shares of NIS 0.12 par value of the Company according to the rate of NIS 77.12 par value of Series 1 Bonds per ordinary share of NIS 0.12 par value of the Company, and, as of 06/09/2014 and until 15/12/2024, according to the rate of NIS 197.12 par value of Series 1 Bonds per ordinary share of NIS 0.12 par value of the Company. The said conversion price is subject to adjustments in respect of dividend distributions, bonus shares and in respect of an issue of rights, as specified in the Shelf Offering Report dated September 6, 2009.

<sup>4</sup> The Company is entitled to execute a full forced early redemption of all Series 1 Bonds on September 7, 2014 if it shall publish an Immediate Report by August 6, 2014 notifying of this resolution. On the early redemption date, if and to the extent executed, the Company shall pay the sum of the principal of the Bonds, plus the accrued interest in respect of the outstanding balance of the Series 1 Bonds up until the early redemption date as stated.

\*\* The said pledges are valid pursuant to all laws and pursuant to the corporation's incorporation documents. Provisions were prescribed in the trust deeds of the said series of bonds for a partial release of Partner shares from the lien in the event of buy-backs of bonds of the same series by the Company (the value of the shares to be released shall be equal to the par value of the bonds purchased as stated), as well as provisions regarding the Company's obligation to pledge additional shares in the event of an expansion of a series of the bonds (shares the value of which shall be equal to the par value of the bonds issued within the scope of the expansion of the series).

11.2 Offering of an additional series of bonds: on October 14, 2009, the Company issued an additional series of index-linked bonds – Series D – at the inclusive sum of about NIS 281 million, and bearing fixed annual interest of 5.1% linked to the consumer price index (base index 08/09). Partner shares were pledged in favor of this series according to the share rate of NIS 73.818.

### 11.3 Particulars regarding the trustee for the bonds

#### Series A, B, C and D Bonds

(a) Name of the trust company –	Clal Finance Trust 2007 Ltd.
(b) Person responsible for the bond series at the trust company –	Adv. Yuval Likver
(c) Contact details –	Telephone: 03-6274848 Fax: 03-6274849 E-mail: <a href="mailto:trustees@clal-fin.co.il">trustees@clal-fin.co.il</a>
(d) Address for sending documents –	37 Menachem Begin Road, Beit Rubenstein, 7 <sup>th</sup> floor, Tel-Aviv 65220

#### Series 1 Bonds

(a) Name of the trust company –	Ziv Haft Trust Company Ltd.
(b) Person responsible for the bond series at the trust company –	Mr. Rami Sabati
(c) Contact details –	Telephone: 03-6374352 Fax: 03-6374344 E-mail: <a href="mailto:trusts@bdo.co.il">trusts@bdo.co.il</a>
(d) Address for sending documents –	46-48 Menachem Begin Road, Beit Amot Bituach, 18th floor, Tel-Aviv

### 11.4 Rating of the bonds in circulation

Following are particulars about the rating of the bonds in circulation on the date of this Report:

<b>Series</b>	<b>Rating on the offering date</b>	<b>Latest rating</b>	<b>Rating Company</b>	<b>Date and reference no. of the rating announcement</b>
Series A Bonds	–	A– stable outlook	Maalot	October 5, 2009 2009-01-247938
		A3	Midroog	October 4, 2009 2009-01-247470
Series B Bonds	–	A– stable outlook	Maalot	October 5, 2009 2009-01-247938
		A3	Midroog	October 4, 2009 2009-01-247470
Series C Bonds	–	A– stable outlook	Maalot	October 5, 2009 2009-01-247938
		A3	Midroog	October 4, 2009 2009-01-247470
Series D Bonds	A– stable outlook	A– stable outlook	Maalot	October 8, 2009 2009-01-249960
Series 1 Bonds	–	A– stable outlook	Maalot	October 5, 2009 2009-01-247938 and on October 20, 2009 2009-01-260403
		A3	Midroog	October 4, 2009 2009-01-247470

**11.5 Compliance with conditions and obligations towards the bondholders**

On the date of the Report and during the period the Company complied with all of the conditions and obligations pursuant to the trust deeds, and no circumstances transpired that give rise to a cause for calling for the immediate payment of the bonds or for exercising sureties provided to secure the payment to the bondholders.

**12. Absence of warning signs in the corporation**

Correct to the date of this Report, no warning signs, as this term is defined in Regulation 10(b)(14) of the Regulations, have arisen in the corporation.

**13. Directors who have accounting and finance expertise**

During the Report Period, the Board of Directors did not change its determination concerning the minimum requisite number of directors possessing accounting and financing expertise, from that specified in clause 10 of the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008. The number of directors on the Company's Board of Directors who possess accounting and financial expertise as on the date of this report has not diminished from the minimum number prescribed by the Board of Directors as stated. Correct to the date of this Report, the directors who are defined as possessing accounting and financial expertise are: Dr. Arye Ovadia, Mr. Dror Barzila, Mr. Shalom Singer and Mr. Yechiel Feingold.

**14. Independent directors**

Correct to the date of this Report, the provision specified in section 219(E) of the Companies Act regarding independent directors has not yet been adopted by the Company in its Articles of Association.

**15. Disclosure with regard to internal auditor**

Since the end of the 2008 and up until the date of this report, no material changes occurred in relation to any matter pertaining to the Company's internal auditor, compared with that specified in clause 12 of the Directors' Report on the State of the Corporation's Affairs for the period ended December 31, 2008. During the first three quarters of 2009, and in light of the recommendations adopted by the Company, subsequent to the performance of a review of internal controls in the Company, the auditor performed an internal audit of the management and reserve of the inventory of replacement parts in the cellular operators segment. The conclusions of the audit were discussed within the Company by the Company's managers involved in the said activity, and shall be discussed by an ad hoc audit committee of the Company which shall be convened in this regard. Currently, the internal auditor is conducting an audit on the subject of the Company's investments and cash, and an examination of the implementation of the recommendations in the reports of internal audits carried out in recent years on the Company's various activities.

**16. Disclosure regarding the procedure for approving the financial statements in the reporting corporation**

Pursuant to the Audit Committee's regulations, which were adopted by the Company's Board of Directors, the Audit Committee of the Company is the organ responsible for oversight in the Company (as this term is defined in Pronouncement 76 of the Institute of Certified Public Accountants in Israel).

For every financial reporting period, as well as for the current reporting period, the financial statements and the directors' reports, as well as the documents pertaining to risk management in the company, and the Internal Auditor's reports, are forwarded for scrutiny by the members of the Audit Committee a few days before the date of the meeting scheduled for discussing the financial statements and for reaching a recommendation for the Company's Board of Directors regarding approval of the Statements.

The Audit Committee is comprised of four members, including the two public directors of the Company, Mr. Yoav Biran and Mr. Dror Barzilai, and two

additional directors, Mr. Shalom Singer (the Committee Chairman) and Mr. Yechiel Feingold. Three of the members of the committee have been defined as possessing accounting and financial expertise.

During the Audit Committee meeting for approval of these financial statements, the Committee members reviewed the financial results, the financial position and every principal activity or change that occurred during the period under report. In addition, there was a discussion of the Company's risk factors pertaining to investments in the capital market, as defined by the Investment Committee, and the risk management methods deriving from them.

A discussion was held during the said audit committee meeting, which was attended by the following audit committee members: Mr. Shalom Singer (committee chairman), Mr. Yehiel Feingold (director), Mr. Yoav Biran (external public director), and Mr. Dror Barzilai (external public director), with the participation of the following members of the Company's Management: Mr. Yahel Shachar (C.E.O.), Mr. Shachar Rachim (C.F.O.), and Mr. Tomer Ben-Shalom (the Company's accountant), during which the Committee members raised questions and the Management provided answers. Also present during the meeting were the external auditor of the Company – CPA Rami Chalaf, who provided his professional opinion in relation to accounting issues raised in relation to the financial statements, and the Internal Auditor of the Company – CPA Moshe Cohen.

In light of the deliberations, the Audit Committee recommended to the Board of Directors to approve the financial statements. During the Board meeting, the financial results, the financial position and every principal activity or change that occurred during the period under report was reviewed and a discussion was held, during which questions were asked and answers were given to the Board members' questions.

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Ilan Ben-Dov

Chairman of the Board

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Yahel Shachar

CEO

Date of Approval: November 10, 2009

**SCAILEX CORPORATION LTD.**

FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2009

**SCAILEX CORPORATION LTD.**

FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2009

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**SCAILEX CORPORATION LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UN-AUDITED)**

	<b>September 30</b>		<b>December 31</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>NIS in thousands</b>		
	<b>Unaudited</b>	<b>Audited</b>	
<b>A s s e t s</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	509,874	562,417	902,797
Deposit held in escrow for the acquisition of a company	1,498,858	-	-
Financial assets included in the P&L	290,376	378,992	51,649
Advance on account of an investment in a company	96,425	-	-
Securities held-to-maturity	-	-	12,319
Trade receivables	168,986	114,613	143,030
Other receivables	3,308	15,271	11,075
Inventory	58,227	27,050	46,611
Current assets of discontinued operations	-	1,061	1,179
	<u>2,626,054</u>	<u>1,099,404</u>	<u>1,168,660</u>
<b>INVESTMENTS AND OTHER NON-CURRENT ASSETS:</b>			
Securities held-to-maturity	-	11,013	-
Prepaid expenses	835	770	747
Assets in respect of employee benefits, net	-	690	-
Deferred income taxes	35,193	25,638	31,835
Fixed assets, net	7,665	5,880	6,125
Goodwill	21,990	165,665	22,007
Other intangible assets, net	132,286	429	145,643
	<u>197,969</u>	<u>210,085</u>	<u>206,357</u>
<b>TOTAL ASSETS</b>	<u>2,824,023</u>	<u>1,309,489</u>	<u>1,375,017</u>

Shachar Rachim

CFO

Yahel Shachar

CEO

Ilan Ben-Dov  
Chairman of the board of directors

Date of approval for the financial statements by the board of the directors: November 10, 2009

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UN-AUDITED)**

	<b>September 30</b>		<b>December 31</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>NIS in thousands</b>		
	<b>Unaudited</b>		<b>Audited</b>
<b>Liabilities and shareholders' equity</b>			
<b>CURRENT LIABILITIES:</b>			
Declared dividend	100,166	-	-
Derivative financial instruments	10,603	-	-
Payables in respect of a short sale of negotiable securities	41,512	-	-
Trade payables	63,073	61,911	74,422
Creditors and accruals	26,224	13,599	19,485
Current liabilities related to discontinued operation	2,641	35,280	3,764
T o t a l current Liabilities	<u>244,219</u>	<u>110,790</u>	<u>97,671</u>
<b>LONG-TERM LIABILITIES</b>			
Bonds	1,486,677	-	-
Liability for employee rights upon retirement	1,424	-	2,280
T o t a l long-term Liabilities	<u>1,488,101</u>	<u>-</u>	<u>2,280</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	26,750	26,748	26,748
Capital surplus	1,238,811	1,223,992	1,223,992
Treasury shares	(447,848)	(158,758)	(164,154)
Currency translation	(311,694)	(324,802)	(304,648)
Other loss	-	434	-
Retained earning	584,031	429,836	491,723
	<u>1,090,050</u>	<u>1,197,450</u>	<u>1,273,661</u>
Rights not vesting control	1,653	1,249	1,405
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>1,091,703</u>	<u>1,198,699</u>	<u>1,275,066</u>
<b>Total liabilities and shareholders' equity</b>	<u>2,824,023</u>	<u>1,309,489</u>	<u>1,375,017</u>

\* Reclassified

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>Nine months ended</u> <u>September 30</u>		<u>Three months ended</u> <u>June 30</u>		<u>Year ended</u> <u>December 31</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>NIS in Thousands</u>				
<b><u>INCOME</u></b>					
INCOME FROM SALES AND SERVICES	560,289	-	186,841	-	184,233
FINANCIAL INCOME	130,145	19,344	22,876	14,006	30,310
OTHER INCOME	302	308,162	-	-	308,162
	<u>690,736</u>	<u>327,506</u>	<u>209,717</u>	<u>14,006</u>	<u>522,705</u>
<b><u>EXPENSES</u></b>					
COST OF SALES AND SERVICES	(415,036)	-	(136,594)	-	(147,454)
SELLING EXPENSES	(47,041)	-	(19,253)	-	(14,778)
GENERAL AND ADMINISTRATIVE EXPENSES	(31,573)	(11,805)	(13,528)	(3,345)	(19,971)
FINANCIAL EXPENSES	(9,126)	(878)	(5,476)	(99)	(1,357)
	<u>(502,776)</u>	<u>(12,683)</u>	<u>(174,851)</u>	<u>(3,444)</u>	<u>(183,560)</u>
<b>INCOME BEFORE TAXES ON INCOME</b>	187,960	314,823	34,866	10,562	339,145
TAX BENEFIT	3,358	24,679	-	25,638	30,876
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	191,318	339,502	34,866	36,200	370,021
<b>NET INCOME FROM DISCONTINUED OPERATIONS</b>	1,404	10,769	(70)	(147)	42,292
<b>NET INCOME FOR THE PERIOD</b>	<u>192,722</u>	<u>350,271</u>	<u>34,796</u>	<u>36,053</u>	<u>412,313</u>
<b>Related net income (loss) for the period:</b>					
Company shareholders	192,474	347,478	34,917	36,060	409,365
Rights not vesting control	248	2,793	(121)	(7)	2,948
<b>T o t a l</b>	<u>192,722</u>	<u>350,271</u>	<u>34,796</u>	<u>36,053</u>	<u>412,313</u>
<b>EARNINGS PER ORDINARY SHARE FOR THE COMPANY SHAREHOLDERS (NIS):</b>					
<b>BASIC:</b>					
Continuing operations	6.6	8.9	1.3	1.0	9.8
Discontinued operation	0.0	0.3	0.0	0.0	1.0
Basic earnings per share	<u>6.6</u>	<u>9.2</u>	<u>1.3</u>	<u>1.0</u>	<u>10.8</u>
<b>Average number of shares (in thousands)</b>	<u>28,967</u>	<u>38,090</u>	<u>27,824</u>	<u>37,820</u>	<u>37,883</u>
<b>DILUTED:</b>					
Continuing operations	6.5	8.9	1.2	1.0	9.8
Discontinued operation	0.0	0.3	0.0	0.0	1.0
Diluted earning per share	<u>6.5</u>	<u>9.2</u>	<u>1.2</u>	<u>1.0</u>	<u>10.8</u>
<b>Average number of shares (in thousands)</b>	<u>29,295</u>	<u>38,059</u>	<u>28,737</u>	<u>37,850</u>	<u>37,926</u>

The accompanying notes are an integral part of these financial statements

**SCAILEX CORPORATION LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	NIS in Thousands				
	Unaudited		Unaudited		Audited
<b>INCOME FOR PERIOD</b>	192,722	350,271	34,796	36,053	412,313
Other comprehensive income (loss):					
Income (loss) from adjustment of the fair value of financial assets available for sale, net of tax	-	(215,618)	-	536	(215,582)
Adjustments in respect of classification of other comprehensive income, net of tax	-	39,835	-	-	39,365
Hedging of cash flows, net of tax	-	(19,812)	-	-	(19,812)
Currency translation	(7,046)	(156,845)	(9,705)	-	(136,690)
Other comprehensive income (loss) for the period, net of tax	(7,046)	(352,440)	(9,705)	536	(332,719)
Total comprehensive income (loss) for the period	185,676	(2,169)	25,091	36,589	79,594
Total comprehensive income (loss) for the period attributed to:					
owners of the company	185,428	(4,962)	25,212	36,596	106,278
rights not vesting control	248	2,793	(121)	(7)	(26,684)
	185,676	(2,169)	25,091	36,589	79,594

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONDOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

	Share capital		Capital surplus	Treasury shares	Currency translation	Accumulated other comprehensive income (loss)	Retained earning	Total	Minority interest	Total share Holders Equity
	Shares	Sum								
	T h o u s a n d s N I S									
<b>BALANCE AT JANUARY 1, 2008</b>	38,178,363	26,748	1,212,660	(139,148)	(174,810)	173,249	232,399	1,331,098	62,889	1,393,987
<b>Changes during 2008:</b>										
Income for the period	-	-	-	-	-	-	409,365	406,365	2,948	412,313
Other comprehensive income (loss), net:										
Loss from available-for-sale securities	-	-	-	-	-	(212,614)	-	(212,614)	(2,968)	(215,582)
Financial loss from available-for-sale assets included in the income statements	-	-	-	-	-	39,365	-	39,365	-	39,365
Hedging of cashflows	-	-	-	-	-	-	-	-	(19,812)	(19,812)
Currency translation	-	-	-	-	(129,838)	-	-	(129,838)	(6,852)	(136,690)
Total comprehensive loss	-	-	-	-	-	-	-	(303,087)	(29,632)	(332,719)
Purchasing of shares in a subsidiary	-	-	11,332	-	-	-	-	11,332	(11,332)	-
Purchase of treasury shares	(930,741)	-	-	(25,006)	-	-	-	(25,006)	-	(25,006)
Dividend distributed to the minority	-	-	-	-	-	-	-	-	(23,468)	(23,468)
Dividend paid	-	-	-	-	-	-	(150,041)	(150,041)	-	(150,041)
<b>BALANCE AT DECEMBER 31, 2008</b>	<u>37,247,622</u>	<u>26,748</u>	<u>1,223,992</u>	<u>(164,154)</u>	<u>(304,648)</u>	<u>-</u>	<u>491,723</u>	<u>1,273,661</u>	<u>1,405</u>	<u>1,275,066</u>
<b>Changes during the nine months ended September 30, 2009:</b>										
Income for the period	-	-	-	-	-	-	192,474	192,474	248	192,722
Currency translation	-	-	-	-	(7,046)	-	-	(7,046)	-	(7,046)
Capital reserve created in respect of the granting of options to employees	-	-	1,701	-	-	-	-	1,701	-	1,701
Capital reserve created in respect of the capital component of Series 1 bonds	-	-	12,958	-	-	-	-	12,958	-	12,958
Purchase of treasury shares	(9,439,857)	-	-	(283,694)	-	-	-	(283,694)	-	(283,694)
Declared dividend	-	-	-	-	-	-	(100,166)	(100,166)	-	(100,166)
Exercise of options by an officeholder	16,000	2	160	-	-	-	-	162	-	162
<b>BALANCE AT SEPTEMBER 30, 2009</b>	<u>27,823,765</u>	<u>26,750</u>	<u>1,238,811</u>	<u>(447,848)</u>	<u>(311,694)</u>	<u>-</u>	<u>584,031</u>	<u>1,090,050</u>	<u>1,653</u>	<u>1,091,703</u>

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONDOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**  
**(CONTINUED)**

	Share capital		Capital surplus	Treasury shares	Currency translation	Accumulated other comprehensive income (loss)	Retained earning	Total	Minority interest	Total share Holders Equity
	Shares	Sum								
	T h o u s a n d s N I S									
<b>BALANCE AT JANUARY 1, 2008</b>	38,178,363	26,748	1,212,660	(139,148)	(174,810)	173,249	232,399	1,331,098	62,889	1,393,987
<b>Changes during the nine months ended September 30, 2008:</b>										
Income for the period	-	-	-	-	-	-	347,478	347,478	2,793	350,271
Other comprehensive income (loss), net:										
Realized loss from available-for-sale securities	-	-	-	-	-	(212,650)	-	(212,650)	(2,968)	(215,618)
Realized loss from available-for-sale securities included in the income statements	-	-	-	-	-	39,835	-	39,835	-	39,835
Hedging of cashflows	-	-	-	-	-	-	-	-	(19,812)	(19,812)
Currency translation	-	-	-	-	(149,992)	-	-	(149,992)	(6,853)	(156,845)
Total comprehensive loss								(322,807)	(29,633)	(352,440)
Capital reserve in respect of the acquisition of shares of a consolidated subsidiary	-	-	11,332	-	-	-	-	11,332	(11,332)	-
Purchase of treasury shares	-	-	-	(19,610)	-	-	-	(19,610)	-	(19,610)
Dividend distributed to the minority shareholders of a consolidated subsidiary	-	-	-	-	-	-	-	-	(23,468)	(23,468)
Dividend distributed to the Company's shareholders	-	-	-	-	-	-	(150,041)	(150,041)	-	(150,041)
<b>BALANCE AT SEPTEMBER 30, 2008</b>	<u>38,178,363</u>	<u>26,748</u>	<u>1,223,992</u>	<u>(158,758)</u>	<u>(324,802)</u>	<u>434</u>	<u>429,836</u>	<u>1,197,450</u>	<u>1,249</u>	<u>1,198,699</u>

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONDOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**  
**(CONTINUED)**

	Share capital		Capital surplus	Treasury shares	Currency translation	Accumulated other comprehensive income (loss)	Retained earning	Total	Minority interest	Total share Holders Equity
	Shares	Sum								
	<b>T h o u s a n d s N I S</b>									
<b>BALANCE AT JULY 1, 2009</b>	27,823,765	26,750	1,224,152	(447,848)	(301,989)	-	649,280	1,150,345	1,774	1,152,119
<b>Changes during the three months ended September 30, 2009:</b>										
Income for the period	-	-	-	-	-	-	34,917	34,917	(121)	34,796
Currency translation	-	-	-	-	(9,705)	-	-	(9,705)	-	(9,705)
Capital reserve created in respect of the granting of options to employees	-	-	1,701	-	-	-	-	1,701	-	1,701
Declared dividend	-	-	-	-	-	-	(100,166)	(100,166)	-	(100,166)
Capital reserve created in respect of the capital component of Series 1 bonds	-	-	12,958	-	-	-	-	12,958	-	12,958
<b>BALANCE AT SEPTEMBER 30, 2009</b>	<u>27,823,765</u>	<u>26,750</u>	<u>1,238,811</u>	<u>(447,848)</u>	<u>(311,694)</u>	<u>-</u>	<u>584,031</u>	<u>1,090,050</u>	<u>1,653</u>	<u>1,091,703</u>
<b>BALANCE AT JULY 1, 2008</b>	<u>38,178,363</u>	<u>26,748</u>	<u>1,223,992</u>	<u>(139,148)</u>	<u>(324,802)</u>	<u>(102)</u>	<u>393,776</u>	<u>1,180,464</u>	<u>1,256</u>	<u>1,181,720</u>
<b>Changes during the three months ended September 30, 2008:</b>										
Income for the period	-	-	-	-	-	-	36,060	36,060	(7)	36,053
Other comprehensive income (loss), net:										
Realized gain from available-for-sale securities	-	-	-	-	-	536	-	536	-	536
Total comprehensive gain	-	-	-	-	-	-	-	536	-	536
Purchase of treasury shares	-	-	-	(19,610)	-	-	-	(19,610)	-	(19,610)
<b>BALANCE AT SEPTEMBER 30, 2008</b>	<u>38,178,363</u>	<u>26,748</u>	<u>1,223,992</u>	<u>(158,758)</u>	<u>(324,802)</u>	<u>434</u>	<u>429,836</u>	<u>1,197,450</u>	<u>1,249</u>	<u>1,198,699</u>

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2009	2008	2009	2008	2008
NIS in Thousands					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income	192,722	350,271	34,796	36,053	412,313
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities (A)	(123,323)	(332,055)	(28,590)	(42,678)	(431,548)
Received interest	4,805	17,260	1,698	12,134	25,566
Dividends received from investments in available-for-sale financial assets	-	-	-	-	37,834
Net cash provided by (used in) discontinued operation	1,504	36,001	-	(191)	35,891
Net cash provided by (used in) operating activities	<u>75,708</u>	<u>71,477</u>	<u>7,904</u>	<u>5,318</u>	<u>80,056</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Disposal of investment in a subsidiary (B)	-	(37,462)	-	-	1,104,983
Acquisition of operations (C)	-	(255,704)	-	(255,704)	(243,693)
Deposit held in escrow	(1,498,343)	-	(1,498,343)	-	-
Advance on account for the acquisition of a company	(96,425)	-	(96,425)	-	-
Proceeds from sale of subsidiary	-	1,142,445	-	1,142,445	-
Proceeds from the sale of financial assets at fair value through profit and loss and derivatives	863,464	-	317,299	-	22,248
Purchase of financial assets at fair value through profit and loss and derivatives	(958,090)	-	(196,226)	-	(58,789)
Proceeds from sale of available-for-sale securities	-	(378,522)	-	(378,522)	(378,522)
Proceeds from sale of available-for-sale financial assets	-	3,500	-	-	366,170
Proceeds from sale of held-to-maturity securities	13,283	28,218	-	17,421	28,218
Purchase of fixed assets	(2,321)	(361)	(878)	(89)	(949)
Purchase of intangible assets	(168)	-	-	-	-
Proceeds from sale of fixed assets	-	2,869	-	2,869	2,869
Investment in assets in respect of employee benefits	-	(197)	-	(35)	-
Investment in subsidiary	-	(200,429)	-	-	(200,429)
Net cash for investment activity being discontinued	-	-	-	-	-
Net cash from investment activity	<u>(1,678,600)</u>	<u>304,357</u>	<u>(1,474,573)</u>	<u>528,385</u>	<u>642,106</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Purchase of treasury shares	(283,694)	(19,610)	-	(19,610)	(25,006)
Proceeds from the exercise of options into shares	162	-	-	-	-
Issuance of bonds	1,495,973	-	1,495,973	-	-
Dividend distributed to the shareholders	-	(150,000)	-	(150,000)	(150,041)
Net cash used in discontinued operation	-	(23,468)	-	-	(23,468)
Net cash provided (used in) financing activities	<u>1,212,441</u>	<u>(193,078)</u>	<u>1,495,973</u>	<u>(19,610)</u>	<u>(198,515)</u>
<b>Currency translation in respect of cash and cash equivalents</b>	<u>(2,472)</u>	<u>(48,630)</u>	<u>549</u>	<u>-</u>	<u>(49,141)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(392,923)</u>	<u>134,126</u>	<u>29,853</u>	<u>514,093</u>	<u>474,506</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>902,797</u>	<u>428,291</u>	<u>480,021</u>	<u>48,324</u>	<u>248,291</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>509,874</u></u>	<u><u>562,417</u></u>	<u><u>509,874</u></u>	<u><u>562,417</u></u>	<u><u>902,797</u></u>

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)  
(CONTINUED)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
<b>NIS in Thousands</b>					
<b>(A) ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
<b>Non cash income and expenses:</b>					
Net income from discontinued operations	(1,404)	(10,769)	70	147	(42,293)
Interest income included in the P&L	(5,320)	(17,000)	(2,158)	(12,134)	(25,306)
Capital gain	-	(247,434)	-	-	(247,434)
Deferred taxes	(3,358)	(25,638)	-	(25,638)	(31,835)
Interest and exchange rate differences in respect of shareholders loans/capital note in a subsidiary	-	643	-	-	643
Depreciation	13,435	117	4,332	9	12,400
Adjustments to reconcile of employee rights upon retirement	(885)	275	(80)	78	2,567
Income from dividend received from investment in available-for-sale financial asset	-	-	-	-	(37,834)
Wage benefit deriving from an allotment of options to employees	1,701	-	1,701	-	-
Linkage differentials and elimination of a discount in respect of bonds issued by the Company	3,662	-	3,662	-	-
Gain derived from purchasing the minority interest of a subsidiary	-	(23,003)	-	-	(23,003)
Unrealized net gain from derivatives	(91,986)	-	(13,920)	-	-
Gain from sale of available-for-sale securities and received interest from held-to-maturity securities	(909)	(1,255)	-	(1,016)	(1,636)
	<u>(85,064)</u>	<u>(324,064)</u>	<u>(6,393)</u>	<u>(38,554)</u>	<u>(393,731)</u>
<b>Changes in operating asset and liability items:</b>					
Increase in trade receivable, net	(29,151)	-	(11,571)	-	(17,615)
Increase (decrease) in other receivable	8,145	(1,439)	(110)	(157)	(7,048)
Increase in inventory	(12,772)	-	(7,082)	-	(17,561)
Increase (decrease) in trade payables	(11,401)	-	(10,978)	-	5,866
Increase (decrease) in accounts payable and accruals	6,920	(6,552)	7,544	(3,967)	(1,459)
	<u>(38,259)</u>	<u>(7,991)</u>	<u>(22,197)</u>	<u>(4,124)</u>	<u>(37,817)</u>
	<u>(123,323)</u>	<u>(332,055)</u>	<u>(28,590)</u>	<u>(42,678)</u>	<u>(431,548)</u>
<b>(B) Disposal of investment in a subsidiary</b>					
Working capital (excluding cash and cash equivalents)	-	-	-	-	798,470
Realization of capital reserves (in respect of available-for-sale financial assets and a translation reserve)	-	-	-	-	59,538
Capital gain from selling a subsidiary	-	-	-	-	246,975
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,104,983</u>
<b>(C) Purchasing of activity</b>					
Net working capital (excluding cash and cash equivalents)	-	-	-	-	(70,139)
Prepaid expenses	-	-	-	-	(770)
Fund in respect of employees' rights upon retirement	-	-	-	-	(963)
Fixed assets, net	-	-	-	-	(5,726)
Other intangible assets, net	-	-	-	-	(144,232)
Goodwill	-	-	-	-	(21,863)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(243,693)</u>

\* Reclassified

**The accompanying notes are an integral part of the financial statements**

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 – General:**

- A** Scailex Corporation Ltd. (hereinafter – The Company) is a public company incorporated in Israel whose shares are listed for trading on the Tel Aviv Stock Exchange (hereinafter – “TASE”) and are quoted in the Pink Quote (also known as the Pink Sheets) in the United States.

The controlling shareholder of the Company to the date of this report is Suny Electronics Ltd. (hereinafter – “Suny”) which holds some 82.49% of the Company's share capital. The controlling shareholder of Suny is Mr. Ilan Ben-Dov, who holds about 0.95% of the Company's share capital.

As of the balance date, the Company is active in three main business segments:

1. management of the Company's assets;
2. cellular operators;
3. end-customers.

- B** On ` , 2009, an agreement was signed between the Company and Advent Investment Pte Ltd., a Singapore company controlled by Hutchison Telecommunications International Ltd., for the acquisition of 78,940,104 ordinary shares of NIS 0.01 par value each of Partner, which constitute, correct to the signing date of the acquisition agreement, some 51.31% of Partner's issued and paid-up share capital (some 49.35% fully diluted), for the consideration of about NIS 67.025 (some USD 17.5) per share of Partner, for an inclusive consideration totalling some NIS 5.29 billion (some USD 1.38 billion).

On October 28, 2009, the Advent Agreement was executed and consummated in accordance with its conditions. On that same day, additional agreements were executed and consummated, within which scope the Company sold a portion of its holdings of Partner to third parties. Correct to November 5, 2009, the Company is holding some 44.92% of Partner's issued and paid-up share capital and voting rights, not fully diluted, and some 43.34% of Partner's issued and paid-up share capital on a fully diluted basis.

- C** These condensed financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as on December 31, 2008 and for the year then ended.

**Note 2 - Summary of significant accounting policies:**

**A. The basis for preparing the financial statements**

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

The principal accounting policies applied in these interim financial statements are in consistency with those applied in the Company's annual financial statements as of December 31, 2008 unless changes are required due to new accounting standards applied at these financial statements period.

- B.** The condensed financial statements have been prepared in accordance with the policies of the Israeli securities regulations (Interim and immediate reports, 1970) Chapter D.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 - Summary of significant accounting policies (continued):**

**C. Financial reporting standards and interpretations published, which came into effect in these financial statements:**

- **IFRS 8 – "Operational Segments"**

The standard, which replaces IAS 14, specifies how a corporation must present segment reporting in the annual financial statements. *Inter alia*, the standard prescribes that the Group's segment reporting must be based on information that the Company's Management uses in order to assess segmental performance, and for decision-making in relation to how resources should be allocated to the various operational segments.

The standard applies to annual reporting periods commencing January 1, 2009, with retroactive adjustments of the comparative figures with previous reporting periods. The implementation of the standard does not have a material impact on the Group's financial statements. As for the company's segment reporting according to IFRS 8 see note 4.

- **IAS 1 (Revised) "Presentation of Financial Statements"**

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements known as the "report of comprehensive income", and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, in cases of restatement and in cases of reclassifications.

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application. At this stage, the management of the Group is examining the influence of this standard on the Company's financial statements.

- **Amendment of IFRS 2 to clarify vesting conditions and cancellations**

Vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. Under IFRS 2, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. The fair value also includes market-related vesting conditions.

All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore any amount unrecognised that would otherwise have been charged is recognised immediately. Any payments made with the cancellation (up to the fair value of the equity instruments) is accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense.

The amendment is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted.

The revised standard has no impact on the reported results and financial position of the Company.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 - Summary of significant accounting policies (continued):**

**C. Financial reporting standards and interpretations published, which came into effect in these financial statements (continued):**

- **IFRS 7 "Financial Instruments"**

Disclosures would not generally affect an entity's interim financial report because disclosures in accordance with IFRS 7 are not required unless their omission would make the condensed interim financial statements misleading.

- **Improvements to the International Financial Reporting Standards 2008**

In May 2008, the IASB promulgated a series of improvements to the international financial reporting standards.

Within the scope of the improvements, amendments were made to some of the standards, which revise the method of presentation, recognition and measurement of various items in the financial statements.

Furthermore, amendments to terminology were made, which have a negligible effect, if any, on the financial statements.

Most of the amendments took effect as of the annual reporting period commencing January 1, 2009. The majority of the amendments have been implemented by way of retroactive adjustment of the comparative figures.

- **Improvements to the International Financial Reporting Standards 2008 (continued):**

No material impact on the Company's financial statements is anticipated due to the amendments made. Among those are the following:

- IAS 38 – "Intangible Assets" which prescribes that payments in respect of advertising and sale promotion activities are to be recognized as assets up until the date on which the entity has the right of access to the goods purchased, or, in the case of the receipt of services, on the date that the services are received.

The amendment applies with respect to annual reporting periods commencing January 1, 2009. The amendment has been implemented retroactively.

The Company's Management assesses that implementation of the amendment does not have a material impact on the Group's financial statements.

**D. Financial reporting standards and interpretations published, which have not yet come into effect, and were not early applied by the Company:**

- **IFRIC 17 "Distributions of Non-cash Assets to Owners"**

This Interpretation applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in IFRS 3, ownership interests in another entity or disposal groups as defined in IFRS 5); and distributions that give owners a choice of receiving either non-cash assets or a cash alternative. Its effective date is 1 January 2010. Earlier application is permitted.

At this stage, the Company does not anticipate that the implementation of the interpretation shall have any impact on its financial position and results of operations.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 - Summary of significant accounting policies (continued):**

**D. Financial reporting standards and interpretations published, which have not yet come into effect, and were not early applied by the Company (continued):**

- **Cash flow hedge accounting (IAS 39 "Financial Instruments: Recognition and Measurement" amendment)**

Recognition and Measurement to clarify that, for cash flow hedges, gains and losses on hedging instruments should be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods that the hedged forecast cash flows affect profit or loss. The amendment should be applied for annual periods beginning on or after January 1, 2010. Earlier application is permitted. The company estimates that no impact should be to applying of the amendment.

- **IFRIC 9 "Reassessment of Embedded Derivatives"**

The amendment requires an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category (Effective date – June 30, 2009).

The amendments should be applied retrospectively. The implementation of this amendment shall not have any impact on the Company's financial statements.

- **Improvements to the International Financial Reporting Standards 2009**

**1. IFRS 8 "Operating Segments"**

According to the amendment an entity should report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. The amendment should be applied for annual periods beginning on or after January 1, 2010, retrospectively. Earlier application is permitted. The company is in the opinion that the revised standard will not have an impact on the financial statements.

**2. Amendment to IAS 1 " Presentation of Financial Statements"**

According to the amendment the potential settlement of a liability by the issuance of equity is not relevant to its classification as current or noncurrent. By amending the definition of a current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle the liability in shares at any time. The amendment should be applied for annual periods beginning on or after January 1, 2010, retrospectively. Earlier application is permitted. The company is in the opinion that the revised standard will not have an impact on the financial statements.

**3. Amendment to IAS 7 "Statement of Cash Flows"**

According to the amendment only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment should be applied for annual periods beginning on or after January 1, 2010, retrospectively. Earlier application is permitted. The company is in the opinion that the revised standard will not have an impact on the financial statements.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 - Summary of significant accounting policies (continued):**

**D. Financial reporting standards and interpretations published, which have not yet come into effect, and were not early applied by the Company (continued):**

**4. Amendment to IAS 36 "Impairment of Assets"**

The amendment clarify whether the largest unit permitted by IAS 36 is the operating segment level as defined in paragraph 5 of IFRS 8 Operating Segments before or after the aggregation permitted by paragraph 12 of IFRS 8. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

**5. Amendment to IAS 39 "Financial Instruments: Recognition and Measurement"**

**A. Scope exemption of business combination contracts**

The amendment clarify that the scope exemption in paragraph 2(g) applies only to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date. An entity shall apply that amendment from now on for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

**B. Hedged items**

The amendment clarify that the scope exemption in paragraph 2(g) applies only to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date. An entity shall apply that amendment from now on for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

**C. Cash flow hedge accounting**

The amendment clarify when gains and losses on hedging instruments should be reclassified from equity to profit or loss as a reclassification adjustment (see IAS 1 Presentation of Financial Statements (as revised in 2007)) for cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or for cash flow hedges of recognized financial instruments. The proposed amendments clarify that the gains or losses on the hedging instrument should be reclassified from equity to profit or loss as a reclassification adjustment in the period that the hedged forecast cash flows affect profit or loss. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

**D. Embedded derivatives**

The Board identified an apparent inconsistency in the guidance in IAS 39. The inconsistency related to embedded prepayment options in which the exercise price represented a penalty for early repayment (ie prepayment) of the loan. The inconsistency related to whether these are considered closely related to the loan. The amendment determines that prepayment option embedded in a host debt contract or host insurance contract is closely related to the host contract when the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 - Summary of significant accounting policies (continued):**

**D. Financial reporting standards and interpretations published, which have not yet come into effect, and were not early applied by the Company (continued):**

• **Improvements to the International Financial Reporting Standards 2009 (continued):**

**6. Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" (continued):**

**E. Exchange rate and linkage basis**

- (1) Balances in or linked to foreign currency are included in the financial statements according to the representative rates of exchange published by the Bank of Israel that were valid on the balance-sheet date.
- (2) Balances linked to the consumer price index are presented according to the last known index on the balance-sheet date (the index of the month preceding the date of the financial statements) or according to the index in respect of the last month of the reporting period (the index of the month of the date of the financial statements), depending upon the conditions of the transaction.
- (3) Regarding the translation of the functional currency of an operating segment, which differs from the presentation currency of the financial statements, into the presentation currency, see note 2 of the financial statements as on December 31, 2008.
- (4) Exchange rates of the USD and linkage bases:

	Representative exchange rate of the USD	CPI in Israel	
		Index "for"	"Known" index
<b>Financial statements:</b>			
September 30, 2009	3.758	110.04	110.35
September 30, 2008	3.421	107.0	107.0
December 31, 2008	3.802	106.4	106.5
	%	%	%
<b>Change for the period:</b>			
Nine-months ended			
September 30, 2009	(1.16)	3.42	3.62
Nine-months ended			
September 30, 2008	(11.05)	4.39	5.00
Three-months ended			
September 30, 2009	(4.11)	1.26	2.44
Three-months ended			
September 30, 2008	2.06	2.00	2.10
Year ended			
December 31, 2008	(1.14)	3.80	4.51

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 - Summary of significant accounting policies (continued):**

**D. Financial reporting standards and interpretations published, which have not yet come into effect, and were not early applied by the Company (continued):**

• **Improvements to the International Financial Reporting Standards 2009 (continued):**

**6. Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" (continued):**

**F. Taxes on Income**

On July 23, 2009, the Economic Efficiency Act (Legislative Amendments to Implementation of the Economic Plan for 2009 and 2010), 5769 – 2009 (hereinafter: “the Arrangements Act”) was promulgated. Pursuant to the Arrangements Act, the tax rates of 26% and 25%, which are imposed on corporations in 2009 and 2010, respectively, shall be reduced gradually as of the 2011 tax year, in respect whereof the corporation tax was set at the rate of 24%, and up until the 2016 tax year, in respect whereof the corporation tax was set at the rate of 18%.

The impact of the Arrangements Act on the balances of deferred taxes in the financial statements for the third quarter of 2009 is immaterial.

**Note 3 – Material Transactions and Events during the Report Period**

- A.** February 5, 2009, after having received the approval of the Company's Audit Committee and Board of Directors, and after having received the approval of the Company's General Assembly, an agreement was executed and consummated under which, the Company acquired all Scailex shares that were owned at that time by Tao, a company controlled by the indirect controlling shareholder of Scailex, who had been an Interested Party in the Company up until that time. In consideration for the acquisition and transfer to the Company of 9,175,896 ordinary shares of the Company that were owned by Tao, the Company paid the inclusive sum of NIS 275,277 thousand in cash to Tao.
- B.** On May 12, 2009, the Company's application to the U.S. Securities Exchange Commission (SEC) dated February 11, 2009 for the deregistration of the Company's securities in the United States came into full and permanent force. According to the U.S. law, the Company is no longer subject to the reporting obligations in the United States (apart from the obligation of publishing an English translation of the Company's reports in Israel on the Company's website). Accordingly, the Company is no longer subject to the regulations and associated obligations applicable to companies whose shares are listed for trading in the United States, and thus, are subject to the reporting obligations in the United States.
- C.** On May 18, 2009, the Company's board of directors resolved to adopt a buy-back plan of ordinary shares of the Company of up to one million ordinary shares, for the sum of up to NIS 30 million, during a period of up to 12 months as of the date of the resolution. Correct to June 30, 2009, the Company has acquired 240,818 ordinary shares within the scope of this plan, for the inclusive total of NIS 7,719 thousands. During 2009, the Company acquired 23,047 additional shares at the inclusive sum of NIS 695 thousand within the scope of its buy-back plan dated July 17, 2008.

**SCAILEX CORPORATION LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 – Material Transactions and Events during the Report Period (continued):**

- D.** On June 4, 2009, the Company resolved to adopt an employees' remuneration plan, within the scope of which up to 1,029,000 unlisted options shall be granted to directors, the senior management, to employees of the Company, to consultants of the Company and to two employees of the controlling shareholder of the Company, Suny Electronics Ltd. Assuming that all of the said options shall be exercised into shares, the exercised shares shall constitute some 3.70% of the Company's issued and paid-up share capital and of the voting rights therein on the granting date (prior to the granting), and some 3.56% of the Company's issued and paid-up share capital and voting rights therein on a fully diluted basis. See note 5.c. regarding the granting of the aforesaid options.
- E.** On June 8, 2009, a senior officeholder exercised 16,000 options for the purchase of 16,000 par value ordinary shares of the Company. Against the allotment of the said shares, the Company received a consideration at the sum of some NIS 162 thousand.
- F.** The Company has expanded its activity in the capital market since the beginning of 2009. The Company's investment portfolio as on the report date includes investments in securities, including shares, government bonds and concern bonds in shekels and dollars, as well as positions in derivatives, which are designated mainly for hedging the investment portfolio.
- G.** On July 1, 2009, the Company renewed its directors' and officeholders' liability insurance. Due to the reduction of the Company's exposure in the United States (following the deregistration of the Company in the United States (see note 3.c above.), the Company reduced the total coverage from NIS 30 million to NIS 15 million, with the premium in respect of the said insurance being some USD 25 thousand, compared with USD 180 thousand in the previous year. The insurance will be valid until June 30, 2010.
- H.** On July 1, 2009 purchased an officeholders run-off liability insurance policy, to cover the liability of those directors and officeholders who held office in Scailex and in its subsidiaries, during the period from June 30, 2008 until June 30, 2009 (with the exception of the chairman of the Company's board of directors and its indirect controlling shareholder, Mr. Ilan Ben-Dov). The policy shall be in effect for three years as of June 30, 2009, at the total coverage of USD 10 million, and for a premium that shall not exceed USD 50 thousand.
- I.** On July 6, 2009, 912,000 options were granted out of the total aforesaid options. The value of the options as on the grant date, according to a Black and Scholes model, totalled some NIS 14 per option, for the inclusive total of some NIS 12.8 million, which shall be recognized as an expense in the financial statements over four years commencing with the third quarter of 2009. The parameters for calculating the benefit were based on the share price, which was NIS 37.48 on July 5, 2009, a standard deviation ranging between 28.35% – 29.03% and unlinked risk-free interest ranging between 4.02% – 4.63%.

On August 16, 2009, the 117,000 additional options were allotted. The value of the said 117,000 options on the grant date, according to a Black and Scholes model, totalled some NIS 18.95 per option, for the inclusive total of some NIS 2.2 million, which shall be recognized as an expense in the books over four years commencing with the third quarter of 2009. The parameters for calculating the benefit were based on the share price, which was NIS 44.0 on August 13, 2009, a standard deviation ranging between 28.08% – 28.74% and unlinked risk-free interest ranging between 3.62% – 4.31%.

During the third quarter of 2009, expenses were recorded at the total of some NIS 1.7 million, opposite a capital reserve in respect of the value of the aforesaid options.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3 – Material Transactions and Events during the Report Period (continued):**

- J.** On July 1, 2009 purchased an officeholders run-off liability insurance policy, to cover the liability of those directors and officeholders who held office in Scailex and in its subsidiaries, during the period from June 30, 2008 until June 30, 2009 (with the exception of the chairman of the Company's board of directors and its indirect controlling shareholder, Mr. Ilan Ben-Dov). The policy shall be in effect for three years as of June 30, 2009, at the total coverage of USD 10 million, and for a premium that shall not exceed USD 50 thousand.
- K.** On August 16, 2009, an extraordinary general assembly of the Company resolved to increase the Company's registered share capital by 190,000,000 ordinary shares at a par value of NIS 0.12 each, so that the Company's registered share capital would total NIS 30,000,000, divided into 250,000,000 ordinary shares of NIS 0.12 par value each, and to amend the Company's Memorandum of Association and Articles of Association according to this resolution.
- L.** On July 8, 2009, the Company submitted a general, indicative and nonbinding offer for the acquisition of Partner's control core. On August 5, 2009, the Company submitted a binding offer for the acquisition of Partner's control core.

On August 12, 2009, an agreement was signed between the Company and Advent for the acquisition of 78,940,104 ordinary shares of NIS 0.01 par value each of Partner, which constituted, correct to the signing date of the agreement, about 51.31% of Partner's issued and paid-up share capital (about 49.41% on a fully diluted basis), for the consideration of about NIS 67.025 (about USD 17.5) per share of Partner, and for the inclusive total consideration of some NIS 5.29 billion (about USD 1.38 billion), plus LIBOR interest from the signing date of the agreement until the transaction consummation date.

On October 28, 2009, the agreement with Advent was executed and consummated in accordance with its conditions – see note 5.g. hereunder.

For the period of the report, the impact of the said agreement was expressed in the balance sheet by the existence of credit balances resulting from the recruitment of funds through the offering of bonds on the Tel-Aviv Stock Exchange and by the recording of an advance of about NIS 96 million, which was given to Advent as part of the agreement. Furthermore, expression was given to the revaluation of the index-linked bonds and the accrued interest in respect of these bonds opposite the statement of operations, at the inclusive total of about NIS 8.3 million, as well as to expenses incurred by the Company in respect of the transaction, which were allocated to general and administrative expenses according to that stated in IFRS 3 (amended).

- M.** On August 21, 2009, the Company engaged in an agreement with Bank Leumi Le-Israel Ltd. ("Leumi Bank"), under which Leumi Bank shall purchase 7,677,037 Partner shares from the Company, which constituted, correct to the signing date of the agreement, about 4.99% of Partner's issued and paid-up share capital (not fully diluted), immediately subsequent to the acquisition of the shares from Advent, and at the same price per share of NIS 67.025, plus LIBOR interest to be calculated from the date of the agreement with Advent and until the transaction consummation date. Within the scope of this agreement, the Company granted an option to Leumi Bank for the purchase of convertible bonds of the Company (see note 5.e. of this Report regarding exercise of this option).

**SCAILEX CORPORATION LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 – Material Transactions and Events during the Report Period (continued):**

N. On August 21, 2009, after having received clearance from the Securities Authority and approval in principle from the Tel-Aviv Stock Exchange Ltd., the Company published a shelf prospectus for securities of the Company. Within the scope of the said shelf prospectus, on September 6, 2009, the Company published a shelf offering report, under which it offered the public four series of bonds of the Company at the inclusive total of NIS 1,509 million.

Following are the particulars of the bonds issued, as on the balance-sheet date:

Name of series	Par value (in '000)	Annual interest	Payment dates of principal and interest	Accrued interest (NIS '000)	Discount as on the balance-sheet date (NIS '000)	Remarks
Series A	346,644	7% fixed	Six biannual payments of principal as of September 2011. The interest payments are biannual as of March 2010.	1,396	3,002	Sole, fixed, first-ranking lien (with a restriction on the creation of additional liens) on shares of Partner at the value of 100% of the par value of the bonds (calculated according to the value of NIS 73.528 per Partner share).
Series B	350,577	3% variable above the interest on a short-term government bond	Six biannual payments of principal as of June 2011. The interest payments are quarterly as of the end of 2009.	988	3,230	Sole, fixed, first-ranking lien (with a restriction on the creation of additional liens) on shares of Partner at the value of 100% of the par value of the bonds (calculated according to the value of NIS 73.528 per Partner share).
Series C	709,332	4.9% fixed, linked to the consumer price index (07/09)	Six biannual payments of principal as of June 2011. The interest payments are biannual as of June 2010.	2,009	6,102	Sole, fixed, first-ranking lien (with a restriction on the creation of additional liens) on shares of Partner at the value of 100% of the par value of the bonds (calculated according to the value of NIS 73.528 per Partner share).
Series 1 <sup>1</sup>	102,606	4% fixed	The principal shall be paid at the end of 2024. The interest payments are biannual as of June 2010.	236	13,840 The capital component was included in the aforesaid discount, which was recorded opposite capital totalling some NIS 12,958 thousand	<ul style="list-style-type: none"> <li>• Convertible into shares of the Company until 05/09/2014. The bonds are convertible into ordinary shares of the Company according to the rate of NIS 77.12 par value of bonds per share. From 06/09/2014 until 15/12/2024 at the rate of NIS 197.12 par value of bonds per share.</li> <li>• The Company may announce a forced full early redemption in 2014.</li> </ul>

For particulars about the issuance of additional bonds, see notes 5.d and 5.e. of this Report.

<sup>1</sup> The conversion prices are after the price adjustment, due to the distribution of the dividend declared by the Company on September 30, 2009 and distributed on October 25, 2009.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3 – Material Transactions and Events during the Report Period (continued):**

- O. On September 30, 2009, the Company's board of directors passed a resolution regarding payment of a dividend at the volume of some NIS 100 million to the Company's shareholders. The distribution was executed on October 25, 2009 (the payment date).

**Note 4 – Operating Segments**

**A. Analysis of income and results according to operating segments:**

The group has been implementing IFRS 8 – “Operating Segments” (hereinafter: “IFRS 8”) since January 1, 2009. IFRS 8 requires the identification of operating segments on the basis of internal reports on the group's components that are regularly reviewed by the group's chief operating decision-maker in order to allocate resources to the operating segments and evaluate their performance.

In comparison, the previous standard (IAS 14 – “Segment Reporting”) required the identification of two sets of segments (business and geographic), based on a risk and yield approach, with the group's system of internal financial reporting to senior management serving only as a starting point for identifying segments.

The definition of the operating segments, as specified in note 21 of the financial statements as on December 31, 2008, did not change as a result of the implementation of IFRS 8.

For the purpose of controlling the segments' performance and allocating resources between them, the chief operating decision-maker monitors each segment's tangible, intangible and financial assets.

	<b>For the nine-months period ended September 30, 2009</b>				
	NIS thousands				
	Unaudited				
	<b>Cellular operators</b>	<b>End customers</b>	<b>Asset management</b>	<b>Adjustments</b>	<b>Consolidated</b>
<b>Income</b>					
From external customers	456,625	103,664	-	-	560,289
Financing income	2,906	-	127,239	-	130,145
Other income	-	-	302	-	302
Intersegmental (*)	35,804	-	-	(35,804)	-
	<u>495,335</u>	<u>103,664</u>	<u>127,541</u>	<u>(35,804)</u>	<u>690,736</u>
<b>Results of the segment</b>	<u>69,168</u>	<u>10,041</u>	<u>105,894</u>	<u>11</u>	<u>185,114</u>
<b>Financing expenses, net</b>					<u>2,846</u>
<b>Tax benefit</b>					<u>3,358</u>
<b>Net profit from continuing operations</b>					<u><u>191,318</u></u>

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 4 – Operating Segments** (continued):

**A. Analysis of income and results according to operating segments** (continued):

	<b>For the three-months period ended September 30, 2009</b>				
	NIS thousands				
	Unaudited				
	<b>Cellular operators</b>	<b>End customers</b>	<b>Asset management</b>	<b>Adjustments</b>	<b>Consolidated</b>
<b>Income</b>					
From external customers	152,557	34,284	-	-	186,841
Financing income	(1,551)	-	24,427	-	22,876
Other income	-	-	-	-	-
Intersegmental (*)	10,443	-	-	(10,443)	-
	161,449	34,284	24,427	(10,443)	209,717
<b>Results of the segment</b>	20,454	3,172	9,139	62	32,827
<b>Financing expenses</b>					2,039
<b>Tax benefit</b>					-
<b>Net profit from continuing operations</b>					34,866

	<b>For the period ended December 31, 2008</b>				
	NIS thousands				
	Audited				
	<b>Cellular operators</b>	<b>End customers</b>	<b>Asset management</b>	<b>Adjustments</b>	<b>Consolidated</b>
<b>Income</b>					
From external customers	152,674	31,559	-	-	184,233
Financing income	-	-	30,310	-	30,310
Other income	-	-	308,162	-	308,162
Intersegmental (*)	9,453	-	-	(9,453)	-
	162,127	31,559	338,472	(9,453)	522,705
<b>Results of the segment</b>	15,267	971	324,604	(340)	340,502
<b>Financing expenses</b>					(1,357)
<b>Tax benefit</b>					30,876
<b>Net profit from continuing operations</b>					370,021

(\*) All intersegmental adjustments relate to sales of cellular handsets and accessories between the cellular operators segment and the end-customer segment.

**SCAILEX CORPORATION LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 – Operating Segments (continued):**

**B. Analysis of assets according to operating segments:**

	<u>As on September 30</u>	<u>As on December 31</u>
	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
Cellular operators segment	317,528	311,776
End customers segment	78,567	80,920
Asset management segment	2,392,735	949,257
Assets not attributed to segments	35,193	33,064
Total assets	<u>2,824,023</u>	<u>1,375,017</u>

**C. Assets of segments in which a material change has occurred:**

- A significant increase has occurred in the Company's asset management segment, which derived from a capital recruitment executed by the Company through a bond issue on the Tel-Aviv Stock Exchange, at the inclusive total of some NIS 1.5 billion, which were deposited in escrow until the consummation of the acquisition of the control of Partner.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5 – Subsequent Events**

- a. On October 4, 2009, an agreement was signed between the Company and Migdal Insurance Company Ltd. (“**Migdal**”), under which Migdal shall purchase 1,044,387 ordinary shares of NIS 0.01 par value each of Partner from the Company, which constituted, correct to the signing date of the agreement, about 0.68% of Partner’s issued and paid-up share capital (not fully diluted). The shares shall be purchased according to a price per share of NIS 67.025, linked to the LIBOR interest from the date of the agreement with Advent and until the acquisition date. The Partner shares being sold are part of 78,940,104 ordinary shares of Partner, in respect whereof the Company engaged in the Advent Agreement. This agreement was executed and consummated on October 28, 2009. See note 5.g. hereunder.
- b. On October 4, 2009 and on October 5, 2009, Midroog Ltd. (“**Midroog**”) and Maalot the Israeli Securities Rating Company Ltd. (“**Maalot**”), respectively, published a rating report in which they assigned an A3 rating with a stable outlook and an A- rating with a stable outlook, respectively, to the Series 1 Bonds, the Series A Bonds, the Series B Bonds and the Series C Bonds of the Company.
- c. On October 13, 2009, an agreement was signed between the Company and Excellence Nessuah Brokerage Services Ltd. (“**Excellence**”), under which Excellence shall purchase 980,000 ordinary shares of NIS 0.01 par value each of Partner from the Company, which constitute about 0.64% of Partner’s issued and paid-up share capital (not fully diluted). The shares shall be purchased according to the price per share of NIS 69.10. The Partner shares being sold are part of 78,940,104 ordinary shares of Partner, in respect whereof the Company engaged in the Advent Agreement. The shares were purchased by Excellence with the intention of selling them to a foreign institutional body. This agreement was executed and consummated on October 28, 2009. See note 5.g hereunder.
- d. On October 14, 2009, the Company published a second shelf offering report pursuant to the shelf prospectus of August 21, 2009, within which scope a new series of bonds was offered to the public – Series D Bonds. The total bonds issued reached some NIS 281 million. The Company pledged Partner shares owned by it in favor of the Series D bondholders, under a sole, fixed, first-ranking lien (with a restriction on the creation of additional liens) at the value of 100% of the par value of the bonds (calculated according to a value of NIS 73.818 per Partner share).
- e. On October 18, 2009, Leumi Bank delivered a notice to the Company, whereby it requested to exercise the option granted it in the Leumi Agreement for the purchase of convertible bonds of the Company. Accordingly, a par value of NIS 102,705,270 of Series 1 Bonds of the Company were allotted to Leumi Partners Ltd. (“**Leumi Partners**”), a wholly owned subsidiary of Leumi Bank, on October 21, 2009, through a private offering report by way of an expansion of the Series 1 Bonds, and at the price of NIS 1.002 per NIS 1 par value. On October 20, 2009, Maalot announced that it assigned an A- rating (with a stable rating outlook) for the expansion of the Series 1 Bonds in circulation, at the inclusive volume of some NIS 103 million.
- f. On October 28, 2009, the approvals of the Minister of Communications and the Director-General of the Ministry of Communications were received for the transfer of the means of control over Partner to Scailex, under the conditions specified in the said approvals.

**SCAILEX CORPORATION LTD.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5 – Subsequent Events** (continued):

- g. On October 28, 2009, the agreement for the acquisition of the control over Partner from Advent was executed and consummated in accordance with its conditions. In consideration of the Partner shares being acquired, the Company paid Advent the inclusive total of some NIS 5,294 million, which includes LIBOR interest that accrued from the signing date of that agreement until the closing of the transaction. Simultaneously with the consummation of the Advent Agreement, the agreements under which the Company sold Partner shares to third parties – Leumi (see note 3.m above), Migdal (see note 5.a. above) and Excellence (see note 5.c above) were also consummated, in accordance with their conditions, for the consideration of a total of some NIS 652.7 million.

The balance of the consideration was paid as follows: some NIS 1,882.2 million were transferred from the cash balances, which were recruited by the Company through the bond issues that it had executed and which were held by trustees in favor of the Partner transaction (for details concerning pledges in favor of the bondholders, see notes 3.n and 5.d above); NIS 1,000 million were provided to the Company as short-term credit from banks (NIS 800 million at prime interest + 1.8%, in favor of which the Company pledged Partner shares according to a share price of NIS 67.025, while an additional NIS 200 million are a credit framework at prime interest + 1%, in favor of which the Company pledged balances of its trade receivables and inventories up to the height of utilization of the framework); some NIS 610.5 million are from the Company's own sources, and some USD 300 million were provided to the Company as a dollar loan by Advent for a period of 4.5 years at interest of 2.027 per annum, in favor of which the Company pledged Partner shares at the share price of NIS 67.025. Subsequent to the consummation of the Advent Agreement and the Sale Agreements, Scailex is holding, correct to the date of this Report, 69,238,680 Partner shares, which constitute some 44.92% of Partner's issued and paid-up share capital and voting rights (not fully diluted), and 43.34% of Partner's issued and paid-up share capital on a fully diluted basis.

Up until the publication of the financial statements, the Company had not yet completed the allocation of the acquisition cost to Partner's assets, liabilities and contingent liabilities, since the acquisition was executed shortly before the publication of the financial statements.