PARTNER COMMUNICATIONS CO LTD
Form 20-F
May 18, 2006

As filed with the Securities and Exchange Commission May 18, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
COMMISSION FILE NUMBER 1-14968

PARTNER COMMUNICATIONS COMPANY LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

8 AMAL STREET
AFEQ INDUSTRIAL PARK
ROSH-HA'AYIN 48103
ISRAEL
(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Title of class

American Depositary Shares
Ordinary Shares*

* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

ORDINARY SHARES OF NIS 0.01 EACH	152,538,362

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES o NO x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934.

YES o NO x

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

YES x NO o

Indicate by check mark which financial statement item the Registrant has elected to follow:

ITEM 17 o ITEM 18 x

If this is an annual report, indicate by checkmark whether the Registrant is a shell company (as defined by Rule 12(b)(2) of the Exchange Act.

YES o NO x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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INTRODUCTION

As used herein, references to we, our, us, Partner or the Company are references to Partner Communications Company Ltd. and to its wholly-owned subsidiaries, Partner Future Communications 2000 Ltd. and Partner Land-Line Communications Solutions LLP (of which Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner), except as the context otherwise requires. In addition, references to our financial statements are to our consolidated financial statements except as the context otherwise requires.

In this document, references to $, US$, US dollars and dollars are to United States dollars and references to NIS and shekels are to N Israeli Shekels. This annual report contains translations of NIS amounts into US dollars at specified rates solely for the convenience of the reader. No representation is made that the amounts referred to in this annual report as convenience translations could have been or could be converted from NIS into US dollars at these rates, at any particular rate or at all. The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the representative exchange rate on December 31, 2005 of NIS 4.603= US$1.00 as published by the Bank of Israel, unless otherwise specified. See Item 3A. Key Information Selected Financial Data Exchange Rate Data.

We maintain our financial books and records in shekels. Our financial statements included in this annual report are prepared in accordance with accounting principles generally accepted in the United States, or US GAAP, and the accompanying discussion of the results of our operations is based on our results under US GAAP. See Item 18. Financial Statements and Item 5A. Operating and Financial Review and Prospects Operating Results .

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, Section 21E of the US Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about Partner.

Words such as believe, anticipate, expect, intend, seek, will, plan, could, may, project, goal, target and similar exp forward-looking statements but are not the only way we identify these statements. All statements other than statements of historical fact included in this annual report, including the statements in the sections of this annual report entitled Item 3D. Key Information Risk Factors, Item 4. Information on the Company and Item 5". Operating and Financial Review and Prospects and located elsewhere in this annual report regarding our future performance, plans to increase revenues or margins or preserve or expand market share in existing or new markets, reduce expenses and any statements regarding other future events or our future prospects, are forward-looking statements.

Because such statements involve risks and uncertainties, actual results may differ materially from the results currently expected. Factors that could cause such differences include, but are not limited to:

- the effects of the high degree of regulation in the telecommunications market in which we operate;
- regulatory developments relating to tariffs, including interconnect tariffs;
- the difficulties associated with obtaining all permits required for building and operating of antenna sites;
- the requirement to indemnify planning committees in respect of claims made against them relating to the depreciation of property values or to alleged health damages resulting from antenna sites;
- alleged health risks related to antenna sites and use of telecommunication devices;
- the effects of vigorous competition in the market in which we operate and for more valuable customers, which may decrease prices charged, increase churn and change our customer mix, profitability and average revenue per user, and the response of competitors to industry and regulatory developments;
- uncertainties about the degree of growth in the number of consumers in Israel using wireless personal communications services and the growth in the Israeli population;
- the risks associated with the implementation of a third generation (3G) network and business strategy, including risks relating to the operations of new systems and technologies, potential unanticipated costs, uncertainties regarding the adequacy of suppliers on whom we must rely to provide both network and consumer equipment and consumer acceptance of the products and services to be offered, and the risk that the use of internet search engines by our 3G customers will be restricted;
- the risks associated with technological requirements, technology substitution and changes and other technological developments;
- the impact of existing and new competitors in the market in which we compete, including competitors that may offer less expensive products and services, desirable or innovative products, technological substitutes, or have extensive resources or better financing;
- regulatory developments related to the implementation of number portability;
- fluctuations in foreign exchange rates;

- the possibility of the market in which we compete being impacted by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which we have no control;
- the availability and cost of capital and the consequences of increased leverage; and
- the results of litigation filed or that may be filed against us.

as well as the risks discussed in Item 3D. Key Information Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects . In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The following table sets forth our selected financial data as at and for each of the years in the five-year period ended December 31, 2005 prepared in accordance with US GAAP. The selected financial data for each of the years in the three-year period ended December 31, 2005 and at December 31, 2005 and 2004 are derived from our consolidated financial statements set forth elsewhere in this annual report. The selected financial data for each of the years ended December 31, 2002 and December 31, 2001 and at December 31, 2003, 2002 and 2001 are derived from our audited financial statements not appearing in this annual report. The selected financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the financial statements and notes thereto included elsewhere in this annual report.

	Year ended December 31,					
	2001	2002	2003	2004	2005	2005
	New Israeli Shekels In thousands (except per share data)					Convenience translation into US$
Statement of Operations Data						
Revenues, net						
Services	2,972,079	3,766,584	4,117,887	4,615,781	4,619,932	1,003,679
Equipment	277,270	287,979	349,832	524,956	503,007	109,278
Cost of revenues	3,249,349	4,054,563	4,467,719	5,140,737	5,122,939	1,112,957
Services	2,187,612	2,499,534	2,586,707	2,885,077	3,022,480	656,633
Equipment	531,551	569,924	549,749	729,937	743,872	161,606
	2,719,163	3,069,458	3,136,456	3,615,014	3,766,352	818,239
Gross profit	530,186	985,105	1,331,263	1,525,723	1,356,587	294,718
Selling and marketing expenses	292,960	308,079	314,008	325,244	272,900	59,287
General and administrative expenses	134,282	143,594	162,387	181,133	180,781	39,275
Operating profit	102,944	533,432	854,868	1,019,346	902,906	196,156
Financial expenses, net	400,927	445,180	321,710	260,545	345,448	75,048
Loss on impairment of						

	Year ended December 31,					
investments in non-marketable securities	8,862	4,054	3,530	-	-	-
Income (loss) before tax	(306,845)	84,198	529,628	758,801	557,485	121,108
Tax benefit (tax expenses)	-	-	633,022	(287,248)	(202,898)	(44,080)
Income (loss) before cumulative effect of a change in accounting principles	(306,845)	84,198	1,162,650	471,553	354,560	77,028
Cumulative effect, at beginning of year, of a change in accounting principles	3,483	-	-	-	-	
Net income (loss) for the year	(303,362)	84,198	1,162,650	471,553	354,560	77,028

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	Year ended December 31,					
	2001	2002	2003	2004	2005	2005
	New Israeli Shekels In thousands (except per share data)					Convenience translation into US$
Earnings (loss) per ordinary share and per ADS						
Basic:						
Before cumulative effect	(1.72)	0.47	6.39	2.57	2.19	0.48
Cumulative effect	0.02	-	-	-	-	
	(1.70)	0.47	6.39	2.57	2.19	0.48
Diluted:						
Before cumulative effect	(1.72)	0.46	6.34	2.56	2.17	0.47
Cumulative effect	0.02	-	-	-	-	
	(1.70)	0.46	6.34	2.56	2.17	0.47
Weighted average number of shares outstanding						
Basic:	178,909,274	179,984,090	181,930,803	183,389,383	161,711,125	161,711,125
Diluted:	178,909,274	183,069,394	183,243,157	184,108,917	163,617,272	163,617,272
Other Financial Data						
Capital expenditures, net	599,493	556,376	232,293	600,944	486,421	105,675
EBITDA(1)	656,369	1,052,240	1,379,830	1,575,996	1,568,616	340,780
Statement of Cash Flow Data						
Net cash provided by operating activities	422,548	682,191	1,031,492	1,272,802	1,006,324	218,623
Net cash used in investing activities	(629,061)	(815,968)	(376,769)	(673,616)	(546,692)	(118,768)
Net cash provided by (used in) financing activities	210,916	129,865	(652,309)	(598,349)	(460,235)	(99,986)
Balance Sheet Data (at year end)						
Current assets	631,148	816,416	865,319	1,057,148	1,170,976	254,395
Investments and long-term receivables	140,969	45,991	72,630	165,815	264,456	57,452
Fixed assets, net	1,749,052	1,864,511	1,694,584	1,843,182	1,768,895	384,292
License and deferred						

	Year ended December 31,					
charges, net	1,112,959	1,269,348	1,325,948	1,325,592	1,321,167	287,023
Deferred income taxes	-	-	413,752	94,442	86,505	18,793
Total assets	3,634,128	3,996,266	4,372,233	4,486,179	4,611,999	1,001,955
Current liabilities (2)	1,194,704	735,153	760,256	859,741	986,995	214,424
Long-term liabilities (2)	2,633,200	3,357,497	2,536,413	2,039,363	2,809,653	610,396
Total liabilities	3,827,904	4,092,650	3,296,669	2,899,104	3,796,648	824,820
Shareholders' equity (capital deficiency)	(193,776)	(96,384)	1,075,564	1,587,075	815,351	177,135
Total liabilities and shareholders' equity	3,634,128	3,996,266	4,372,233	4,486,179	4,611,999	1,001,955

(1) EBITDA represents earnings (loss) before interest, taxes, depreciation and amortization. EBITDA is presented because it is a measure commonly used in the telecommunications industry and is presented solely to enhance the understanding of our operating results. EBITDA, however, should not be considered as an alternative to operating income or income for the year as an indicator of our operating performance. Similarly, EBITDA should not be considered as an alternative to cash flow from operating activities as a measure of liquidity. EBITDA is not a measure of financial performance under generally accepted accounting principles and may not be comparable to other similarly titled measures for other companies. EBITDA may not be indicative of our historic operating results; nor is it meant to be predictive of potential future results.

(2) See Notes 5, 6 and 7 to our consolidated financial statements for information regarding long-term liabilities and current maturities of long-term bank loans.

	Year ended December 31,					
	2001	2002	2003	2004	2005	2005
	New Israeli Shekels In thousands					Convenience translation into US $
Reconciliation Between Operating Cashflow and EBITDA						
Net cash provided by operating activities	422,548	682,191	1,031,492	1,272,802	1,006,324	218,624
Liability for employee rights upon retirement	(18,736)	(18,632)	(15,540)	(16,302)	(9,430)	(2,049)
Accrued interest, exchange and linkage differences on long-term liabilities	(54,522)	(91,027)	67,438	10,258	(108,411)	(23,552)
Amount carried to deferred charges	22	3,805	-	-	13,820	3,002
Accrued interest, exchange and linkage differences on security deposit	6,590	6,925	(8,877)	-	-	-
Sundry	-	-	-	-	-	-
Increase (Decrease) in accounts receivable:						
Trade	55,944	56,638	(22,721)	225,860	262,262	56,976
Other	14,235	8,056	5,557	13,615	26,970	5,859
Decrease (Increase) in accounts payable and accruals:						
Trade	(57,271)	(31,909)	93,444	(135,600)	(112,857)	(24,518)
Shareholder - current account	2,230					
Related parties	-	-	-	-	(10,513)	(2,284)
Other	(68,068)	(14,796)	(47,541)	(41,613)	75,884	16,486
Increase (Decrease) in inventories	(36,859)	12,996	(34,647)	(1,205)	107,667	23,391
Increase in asset retirement obligation			(1,228)	(464)	92	20
Financial Expenses(*)	393,739	437,993	312,453	248,645	316,806	68,826
EBITDA	656,369	1,052,240	1,379,830	1,575,996	1,568,614	340,781

(*) Financial expenses excluding any charge for the amortization of deferred financial costs.

	At December 31,		
	2003	2004	2005
Industry Data			
Estimated population of Israel (in thousands)(1)	6,748	6,870	6,986
Estimated Israeli mobile telephone subscribers (in thousands)(2)	6,618	7,217	7,851
Estimated Israeli mobile telephone penetration(3)	98%	105%	113%

	Year ended December 31					Three months ended			
	2001	**2002**	**2003**	**2004**	**2005**	**March 31, 2005**	**June 30, 2005**	**Sept. 30, 2005**	**Dec. 31, 2005**
Partner Data									
Subscribers (000's) (at period end)(4)	1,458	1,837	2,103	2,340	2,529	2,372	2,409	2,480	2,529
Pre-paid	389	540	639	700	754	706	719	739	754
Post-paid (private)	829	1,004	1,117	1,207	1,268	1,216	1,227	1,255	1,268
Post-paid (business)	240	293	347	433	507	450	463	486	507
Share of total Israeli subscribers (at period end)(5)	27%	29%	31%	32%	32%	32%	32%	32%	32%
Average monthly usage per subscriber (mins.)(6)	318	280	277	286	294	288	296	306	287
Average monthly revenue per subscriber including inroaming (NIS)(7)	214	183	171	170	156	157	157	162	148
Churn rate(8)	5.8%	10.9%	13.6%	12%	13.6%	3.9%	3.6%	3.2%	3.1%
Subscriber acquisition costs per subscriber (NIS)(9)	458	470	362	295	282	229	263	363	256
Estimated coverage of Israeli population (at period end)(10)	97%	97%	97%	97%	97%	97%	97%	97%	97%
Number of operational base stations (at period end)	1,882	2,035	2,138	2,243	2,252	2,233	2,260	2,244	2,252
Number of microsites out of total number of operational base stations (at period	703	726	729	723	714	709	716	723	714
Number of employees (full time equivalent) (at period end)(11)	2,523	2,685	2,769	3,164	3,403	3,113	3,192	3,475	3,403

(1) The population estimates are published by the Central Bureau of Statistics in Israel.

(2) We have estimated the total number of Israeli mobile telephone subscribers from information contained in published reports issued by, and public statements made by, Pelephone Communications Israel Ltd., or Pelephone, and Cellcom Israel Ltd., or Cellcom, or by their shareholders and from Partner subscriber data at December 31, 2003, 2004 and 2005.

(3) Total number of estimated Israeli mobile telephone subscribers expressed as a percentage of the estimated population of Israel. This includes dormant subscribers as well as other subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers.

(4) In accordance with general practice in the mobile telephone industry, we use the term subscriber , unless the context otherwise requires, to indicate a telephone, rather than either a bill-paying network customer, who may have a number of telephones connected to the network, or a mobile telephone user who may share a single telephone with a number of other users. Subscriber includes our pre-paid customers. References to the number of subscribers are stated net of subscribers who leave or are disconnected from the network, or who have not generated revenue for the Company for a period of over six consecutive months ending at a reporting date.

(5) Total number of Partner subscribers expressed as a percentage of the estimated total number of Israeli subscribers.

(6) We have calculated our average monthly usage per subscriber by (i) dividing, for each month in such period, the total number of minutes of usage, excluding inroaming usage, during such month by the average of the number of our subscribers, and (ii) dividing the sum of such results by the number of months in the relevant period.

(7) We have calculated Partner average monthly revenue per subscriber by (i) dividing, for each month in the relevant year, the Partner revenue during the month, excluding revenue from equipment sales and including revenue from foreign network operators for calls made by their roaming customers while in Israel using our network, by the average number of Partner subscribers during that month, and (ii) dividing the sum of all such results by the number of months in the relevant period. We have presented the amounts in NIS.

(8) We define the churn rate as the total number of subscribers who disconnect from our network, either involuntarily or voluntarily, in a given period expressed as a percentage of the average of the number of our subscribers at the beginning and end of such period. Our churn rate includes subscribers who have not generated revenue for us for a period of the last six consecutive months ending at a reporting date. Involuntary churn includes disconnections due to non-payment of bills or suspected fraudulent use, and voluntary churn includes disconnections due to subscribers switching to a competing mobile telephone network or terminating their use of our services. From July 2002, we refined our criteria for reporting active subscribers. As a result, we have included in churn for this period those subscribers who generated minute revenues only from incoming calls directed to their voice mail.

(9) Subscriber acquisition costs, or SAC, include mainly handset and car kit costs, net of revenues received from sales of handsets, referred to as handset subsidies , and commissions paid to dealers, distributors and sales personnel. Subscriber acquisition costs per subscriber are calculated by dividing the subscriber acquisition costs incurred during the reporting period by the number of subscribers acquired in the reporting period. The aforementioned components of SAC are included in our consolidated financial statements as follows: handset and car kit costs in cost of equipment revenues ; commissions paid to dealers, distributors and sales personnel in selling and marketing expenses ; and revenues received from sales of handsets in equipment revenues .

(10) We measure coverage using computerized models of our network, radio propagation characteristics and topographic information to predict signal levels at two meters above ground level in areas where we operate a cell site. According to these coverage results, we estimate the population serviced by our network and divide this by the estimated total population of Israel. Estimates are published by the Central Bureau of Statistics in Israel.

(11) A full-time employee is contracted to work a standard 186 hours per month. Part-time employees are converted to full-time equivalents by dividing their contracted hours per month by the full-time standard. The result is added to the number of full-time employees to determine the number of employees on a full-time equivalent basis.

Exchange Rate Data

The following table sets forth, for the years indicated, exchange rates between the shekel and the US dollar, expressed as shekels per US dollar and based upon the daily representative rate of exchange on the last day of each year as published by the Bank of Israel.

	2001	2002	2003	2004	2005
Average(1)	4.220	4.736	4.512	4.480	4.485
High	4.416	4.994	4.924	4.634	4.741
Low	4.067	4.437	4.283	4.308	4.299
End of period	4.416	4.737	4.379	4.308	4.603

(1) Calculated based on the average of the exchange rates on the last day of each month during the relevant period.

	November 2005	December 2005	January 2006	February 2006	March 2006	April 2006
High	4.741	4.662	4.658	4.725	4.717	4.671
Low	4.64	4.579	4.577	4.664	4.658	4.503

On May 17, 2006, the exchange rate was NIS 4.433 per US dollar as published by the Bank of Israel. Changes in the exchange rate between the shekel and the US dollar could materially affect our financial results.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

We operate in a highly regulated telecommunications market which limits our flexibility to manage our business. In particular, the regulator s decisions may materially adversely affect our results of operations.

Our business is highly regulated. We are subject to government regulation regarding telecommunications licenses, antitrust, frequency allocation and costs and arrangements pertaining to interconnection and leased lines. Our business and operations could be adversely affected by changes in laws, regulations or government policy affecting our business activities, such as decisions by the regulator:

reducing tariffs, including roaming, call and/or SMS termination tariffs (as described below under We may be adversely affected by regulatory developments relating to interconnect tariffs);

adopting policies and imposing new regulations for the erection of antenna sites;

changing the method of calculating call duration;

implementing number portability in the cellular market in Israel (as described below under We may be adversely affected by regulatory developments relating to number portability);

increasing the rate of royalties to be paid to the State of Israel;

broadening the range of the types of revenues on which royalties are paid;

setting policies and imposing new regulations governing electronic trade and content services, including 3G content services;

changing the regulation affecting our roaming business;

limiting our ability to charge for unanswered calls directed into voicemail or to charge for the initial seconds of such calls; and

otherwise limiting the prices that we may charge our customers.

Further risks and uncertainties result from the fact that changes in such laws, regulations or government policy may not be adopted or implemented in the manner that we expect and may be further amended, interpreted or enforced in an unexpected manner or in a manner adverse to us.

We may be adversely affected by regulatory developments relating to interconnect tariffs.

The Ministry of Communications reduced call termination tariffs from NIS 0.50 per minute to NIS 0.45 per minute at the beginning of 2003. In addition, the Ministry of Communications amended our license and the relevant regulations, reducing SMS termination tariffs from NIS 0.38 to NIS 0.285 effective May 1, 2004.

In November 2004, the Ministry of Communications issued regulatory changes further reducing call termination tariffs, effective March 1, 2005, from NIS 0.45 to NIS 0.32, with additional reductions mandated as follows: effective March 1, 2006, to NIS 0.29 per minute; effective March 1, 2007, to NIS 0.26 per minute; and effective March 1, 2008, to NIS 0.22 per minute. At the same time, the Ministry of Communications reduced SMS termination tariffs, effective March 1, 2005, from NIS 0.285 to NIS 0.05, with an additional reduction mandated effective March 1, 2006 to NIS 0.025. The tariffs described above are now adjusted each March to conform to the CPI. In response to the tariff reductions described above, we have implemented cost-cutting measures as well as price increases and repackaging our tariff plans. Depending on the effectiveness of such steps, and other factors such as general market conditions, these regulatory changes may negatively impact our revenues and profits.

At the same time as it announced the regulatory changes described above, the Ministry of Communications also indicated that it intends to start implementing a process to bring about unification of rates for calls terminating both on and off an operator s network. Preliminary hearings with the cellular operators in Israel on this matter commenced in August 2005, and the Ministry of Communications has yet to publish a decision. These changes, if implemented, could also adversely affect our revenues and profits.

We have had difficulties obtaining some of the permits for which we have applied, and have not yet applied for other permits that are required for the erection of our antenna sites. These difficulties could continue and therefore affect our ability to erect or maintain antenna sites. This could have an adverse effect on the extent, quality and capacity of our network coverage and may result in criminal or civil liability to us or to our officers and directors.

Our ability to maintain and improve the extent and quality of our network coverage depends in part on our ability to obtain appropriate sites and approvals to install our network infrastructure, including antenna sites. The erection and operation of most of these antenna sites require building permits from local or regional zoning authorities, as well as a number of additional permits from governmental and regulatory authorities, such as:

- erection and operating permits from the Ministry of the Environment;
- permits from the Civil Aviation Authority, in certain cases; and
- permits from the Israeli Defense Forces.

In addition, as part of our 3G network build out, we are erecting additional antenna sites and making modifications to our existing antenna sites, for which we may be required to obtain new consents and approvals.

Like our competitors, we have experienced difficulties in obtaining some of these consents and permits, especially from local building authorities. As of December 31, 2005, approximately 30% of our antenna sites were operating without local building permits or applicable exemptions. A substantial portion of these are microsites. We believe that a portion of the sites operating without permits from local authorities do not require local building permits under the Planning and Building Law 1965. In addition, some of the building permits we have received are not compatible with the antenna sites for which they were obtained. If we continue to experience difficulty in obtaining approvals for the erection of antenna sites, this could adversely affect our existing network, delay the erection of additional antenna sites to our network and adversely impact our 3G network build-out. This difficulty could have an adverse effect on the extent, quality and capacity of our network coverage and on our ability to continue to market our products and services effectively. Our inability to resolve these issues in a timely manner could also prevent us from achieving or maintaining the network coverage and quality requirements contained in our license.

In addition, we, like the other mobile telephone operators in Israel, provide repeaters, also known as bi-directional amplifiers, to subscribers seeking an interim solution to weak signal reception within specific indoor locations. In light of the lack of a clear policy of the local planning and building authorities, and in light of the practice of the other mobile telephone operators, we have not requested permits under the Planning and Building Law for the repeaters. However, we have received from the Ministry of Communications an approval to connect the repeaters to our communications network. We have also approached the Ministry of the Environment, asserting that no permits are necessary for the repeaters, based on the Ministry s previous advice that permits are not necessary for devices with comparable levels of emission called Fixed Cellular Terminals . If the local planning and building authorities determine that permits are necessary for the installation of these devices, or any other receptors that we believe do not require a building permit, it could have a negative impact on our ability to obtain permits for our repeaters. Recently, the Non-Ionizing Radiation Law (5766-2006) was enacted, and defines the various powers of the Ministry of the Environment as they relate, *inter alia*, to the grant of permits for antenna sites and sets standards for permitted levels of non-ionizing radiation emissions and reporting procedures. Pursuant to this law, which will enter into effect on January 1, 2007, a request for an operating permit from the Ministry of Environment with respect to either new sites or existing sites would require a building permit for such site(s). If we will continue to face difficulties in obtaining building permits from the local planning and building committee, we may fail to obtain also operation permits from the Ministry of Environment. Operation of an antenna site without a permit from the Ministry of Environment may result in criminal and civil liability to us or to our officers and directors.

The erection of an antenna site without a required local building permit is a violation of the Planning and Building Law, 1965 and, in some cases, has resulted in a demolition order being imposed on us and in the filing of criminal charges and civil proceedings against us and our officers and directors. We may be further faced with additional demolition orders, monetary penalties and criminal charges, including against our officers and directors.

In connection with certain building permits, we may also be required to indemnify certain planning committees in respect of claims against them relating to the depreciation of property values or to alleged health damage that result from antenna sites, which may have a material adverse effect on our financial condition and results of operations.

The extent of our potential liability in connection with alleged health risks relating to antenna sites or in connection with alleged depreciation in the value of nearby properties as a result of the building of antenna sites may be increased as a result of various developments. For a description of alleged health damage relating to antenna sites, see risk factor below, - There are alleged health risks related to antenna sites and the use of mobile telecommunications devices, including handsets. The actual or perceived health risks of mobile telephone communications devices could have a material adverse effect on our business, operations and financial condition.

Under the Planning and Building Law, 1965, local planning committees may be held liable for the depreciation of the value of nearby properties as a result of approving a building plan. Since National Building Plan 36 was approved, some planning committees have started to require that, as a precondition for issuing new permits for antenna sites, we submit an undertaking to indemnify the committee against claims for depreciation in the value of nearby properties as a result of issuing a permit to build, and the building of, antenna sites. Under the Non-Ionizing Radiation Law, which imposes criminal sanctions for non-compliance with its dictates, as of January 2006, the National Council for Planning and Building was granted the power to determine the level of indemnification that must be undertaken by cellular companies as a precondition for obtaining a building permit for a new or existing antenna site that requires such a permit. The National Council has decided that until National Building Plan 36 is amended to reflect a different indemnification amount, cellular companies will be required to undertake to indemnify the committees in full against all losses resulting from claims against a committee for reduction in property values. Thus, at present, in order to obtain a building permit for a new or existing antenna site, we must provide full indemnification for the reduction of property value. We cannot predict whether the legal requirement to provide full indemnification will be adopted in the amended National Building Plan 36, nor can we predict when the National Building Plan 36 will be amended. To date, we have provided to local authorities 24 letters of undertaking to provide such indemnification for the benefit of such local authorities within 30 days from the enactment of a law or a final court decision requiring such indemnifications. Such indemnifications expose us to risks which are difficult to quantify or mitigate and which may have a material adverse effect on our financial conditions and results of operations. In addition, the requirement to provide such indemnifications in connection with new building permits may impede our ability to obtain such building permits for existing antenna sites or to expand our network with the erection of new antenna sites.

Further, there have been a number of attempts, by local planning committees to include mobile phone operators in claims against such committees for the depreciation in value of nearby properties as a result of the erection of antenna sites. If the local planning committees succeed in including mobile phone operators in these actions, it may expose us to significant liability and have a material adverse effect on our financial condition and results of operation. For more information, see - We have had difficulties obtaining some of the permits for which we have applied, and have not yet applied for other permits that are required for the erection of our antenna sites. These difficulties could continue and therefore affect our ability to erect or maintain antenna sites. This could have an adverse effect on the extent, quality and capacity of our network coverage and may result in criminal or civil liability to us or to our officers and directors.

There are alleged health risks related to antenna sites and the use of mobile telecommunications devices, including handsets. The actual or perceived health risks of mobile telephone communications devices could have a material adverse effect on our business, operations and financial condition.

A number of studies have been conducted to examine the health effects of wireless phone use and antenna sites, and some of these studies have been construed as indicating that wireless phone use causes adverse health effects. Media reports have suggested that radio frequency emissions from antenna sites, wireless handsets and other mobile telecommunication devices may raise various health concerns and may interfere with various electronic medical devices, including hearing aids and pacemakers. While, to the best of our knowledge, the handsets that we market comply with the applicable laws that relate to acceptable Specific Absorption Rate (SAR) levels, we rely on the SAR levels published by the manufacturer of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers approvals refer to a prototype handset, we have no information as to the actual level of SAR of the handsets along the lifecycle of the handsets, including in the case of handset repair.

Several lawsuits have been filed out of Israel against operators and other participants in the wireless industry alleging adverse health effects and other claims relating to radio frequency transmissions to and from handsets and other mobile telecommunications devices. We may be subject to potential future litigation relating to these health concerns.

Furthermore, we do not expect to be able to obtain insurance with respect to such liability. If it will ever occur that health risks existed or that there was a deviation from SAR standards which would result in a health risk from sites or handsets, this would have a material adverse effect on our business, operations and financial condition, including through exposure to potential liability, a reduction in subscribers, reduced usage per subscriber and increased difficulty in obtaining sites for base stations.

Competition from existing competitors may require us to increase our subscriber acquisition and customer retention costs, decrease our tariffs, and may increase our churn rate.

We compete primarily with Cellcom and Pelephone, two of the other mobile telephone network operators in Israel, and we also compete with MIRS. Because of the ease of switching between cellular operators, we have already faced and may continue to face an increase in our churn rate and may be forced to increase our customer retention costs, including subsidies towards upgrades of subscribers handsets, in order to retain our subscribers. These developments may adversely affect our market share, financial condition and results of operations.

During 2003, Cellcom and Pelephone launched new technologies enabling faster transfers of data: EDGE technology, in the case of Cellcom, and CDMA-1x, in the case of Pelephone. In 2004, further technological enhancements were introduced by our competitors, Cellcom announcing commercial service over UMTS coverage and Pelephone announcing the implementation and commercial offering of EV-DO technology. In 2005 Cellcom expanded its UMTS spectrum and began to implement High-Speed Downlink Packet Access (HSDPA) technologies in preparation for a future launch of its 3.5G technologies. If Cellcom or Pelephone successfully maximizes the potential of these technologies before we benefit more fully from our 3G technology, we will be at a competitive disadvantage.

To the extent that land-line telephones are used instead of mobile telephones, we also compete with Bezeq, the incumbent land-line operator in Israel. Bezeq completed during 2004 its acquisition of 100% of the shares of Pelephone, and that may enable Pelephone to offer combined packages of land-line, mobile telephone and other telecommunication services, subject to regulatory approval.

The following have either launched land-line service, have been granted a license for such service or have applied for such a license. We are at a competitive disadvantage relative to operators who may be able to offer combined packages of land-line, mobile telephone and other communications services.

HOT, a group jointly owned by the three cable companies in Israel, ("HOT") launched land-line telephone service;

Golden Lines was granted a land-line telephone service license and has started to recruit subscribers to this service;

GlobeCall Communication Ltd. ("Globecall"), a company wholly-owned by IDB, which also controls Cellcom, was granted a land-line telephone service license;

A partnership controlled by Cellcom was recently granted a land-line telephone service license; and

Other telecommunication companies, including Barak and Netvision, have also applied for a land-line telephone service.

We may also face competition from additional land-line operators, if additional land-line licenses are granted. The Ministry of Communications may also choose to grant additional mobile telephone operator licenses, which may further intensify competition in the mobile market in Israel. The Ministry of Communications may also opt to grant licenses to mobile virtual network operators (MVNOs), who may use Partner s infrastructure or other cellular operators to offer mobile telephone services.

Increased competition may require us to increase our subscriber acquisition and customer retention costs. Competition may also limit our ability in the future to increase tariffs, or cause us to reduce tariffs. We experienced a material increase in churn in each of 2002 and 2003, and then a slightly lower churn in 2004 as compared to 2003. In 2005, we experienced a higher churn rate than that experienced in 2004, primarily due to the prepaid sector. Competition, including increased competition resulting from the introduction of number portability, may further increase our level of churn.

Recent statements by the Israeli Commissioner of Restrictive Trade Practices have indicated that he may seek a change in the law that could result in increased anti-trust regulation on the mobile telephone industry in Israel, which could have a material adverse effect on our revenues and financial results.

In recent statements, the Israeli Commissioner of Restrictive Trade Practices has expressed his view that the mobile telephone industry in Israel operates as an oligopoly and that the Israeli government should intervene to regulate prices. In part, the Commissioner based his statements on the increase in prices by the mobile telephone operators as a result of the Ministry of Communications decision to lower call termination tariffs. The chairman of the Knesset s Economic Committee announced that the committee would act to declare the mobile telephone operators as an oligopoly. Such a finding could result in increased regulatory intervention (including with regard to tariffs and tariffing practices), the application of certain limitations on our conduct and increased litigation.

Additional regulation, including as a result of our being declared, together with the other mobile telephone operators in Israel, as part of an oligopoly, could materially and adversely affect our revenues and our financial results.

Our subscriber growth rate, and consequently our revenue growth rate, has begun to slow, because Israel s mobile telephone services market is highly penetrated, making it more difficult for us to obtain new subscribers than in the past and retain existing subscribers.

Although Israel s mobile telephone services market has experienced substantial growth, and we have experienced substantial subscriber growth since our commercial launch in 1999, the Israeli market for mobile telephone services is now highly penetrated, and the growth of the overall Israeli market and of our own subscriber base has been slower than in the past. According to data from the Central Bureau of Statistics, the population of Israel at the end of December 2005 was approximately 7.8 million. According to a recent report issued by a research company, at December 31, 2005, Israel s mobile telephone market penetration is estimated to be 113%. This may include dormant subscribers as well as subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers. Because the Israeli market for mobile telephones is highly penetrated, it is not growing at the same rate as in the past, and our own subscriber growth is not developing at the same rate as in the past. Similarly, whereas in the past our revenue growth has largely resulted from growth in the overall market, our future revenues will depend significantly on our ability to retain existing subscribers and to attract subscribers from the other mobile telephone network operators. While our market share, based on internal estimates, has increased from approximately 13% of Israeli mobile subscribers at December 31, 1999 to approximately 32% at December 31, 2005, our market share growth has slowed since 2003, and we expect this trend to continue.

High handset prices, delays in the development of handsets, services and network compatibility and components, and supplier interoperability may hinder the deployment of 3G technology and may increase the costs related to both subscriber acquisition and subscriber retention. If we are unable to successfully develop attractive 3G services for our subscribers or if the Ministry of Communications is successful in restricting the use of internet search engines by our 3G customers, our results of operations will be adversely affected.

Establishing a 3G network and developing services requires investing substantial capital resources. There is no assurance that subscribers will adopt 3G services, how widespread the usage of these new services will be, how many subscribers will be willing to pay for these services and new devices and whether the revenue generated from these services will justify the costs involved in establishing and operating our 3G networks. If we are unable to develop attractive 3G services for our subscribers, we may be required to write off all or a portion of our investment and our results of operations would be adversely affected.

High handset prices may make our 3G offering less attractive to potential subscribers or increase costs related to SAC as well as costs related to retaining subscribers (SRC), as the costs of providing handsets and upgrades to customers will increase. We also rely on applications developers to develop services that will stimulate demand for our 3G network. We cannot predict whether customer demand will develop as expected. If applications developers fail to develop such services, or experience delays in their development of such services, our ability to generate revenues from our 3G network will be adversely affected.

We have selected both Nortel Networks and Ericsson to supply the infrastructure necessary to build-out our 3G network. We were one of the first 3G networks in the world to be built with Nortel equipment, and we cannot assure you that Nortel, together with Ericsson, will be able to successfully deliver all of the requirements of our network, including interoperability with our existing GSM network. We also cannot assure that the Nortel and Ericsson equipment will successfully interoperate. 3G handsets may not be available at reasonable prices or in the timeframe required or in the amounts needed. If we cannot obtain and offer reasonably priced devices, technologically proven network equipment or software with sufficient functionality or speed from Nortel, Ericsson, or other suppliers, or if we experience delays in the delivery or functional deployment of devices, handsets and related network equipment or software, our ability to further develop our 3G network, and our customers ability to access it, will be impaired.

A recent amendment to our general license imposed by the Ministry of Communications extends to our 3G network restrictions regarding adult services accessed via our cellular technologies. These new restrictions restrict access not only to adult-content internet sites, but also access via our internet portal to popular internet search engines, such as Google, that could potentially facilitate a search for such adult-content internet sites. We have filed a petition challenging the legality of the restrictions imposed by the Ministry of Communications. See Regulations Our License. If we are unsuccessful in our challenge to this amendment to our general license, our ability to generate revenues from our 3G network could be adversely affected.

The telecommunications industry is subject to rapid and significant changes in technology which could reduce the appeal of our services.

We may face competition from existing or future technologies, including land-line and cordless technologies, satellite-based personal communications services, private and shared radio networks, wireless broadband access services, voice over Internet Protocol services, wireless fidelity, or Wi-Fi, technologies, Wimax, and other communications services that have the technical capability to handle mobile telephone calls and to interconnect with the land-line telephone network. The effect of emerging and future technological changes, including the convergence of technologies and the introduction of new competitors with the ability to provide mobile telecommunication services to customers while mobile, or the viability or competitiveness of our network cannot be accurately predicted. We cannot assure you that the technologies we employ or intend to employ, including 3G technologies, will not become obsolete or subject to competition from new technologies in the future, nor can we predict the effect of competition from new technologies in the future on our financial condition or results of operations.

We may be required in the future to offer access to our network infrastructure to other operators. This may lower the entry barriers for potential new competitors and adversely affect our financial condition and our ability to provide services to our subscribers. These operators could also gain market share at our expense by offering lower prices to our customers.

Under the Communications Law (Telecommunications and Broadcasting), 1982, the Ministry of Communications has the power to require us, like the other telephone operators in Israel, to offer access to our network infrastructure to other operators. Our license also requires us, upon demand by the Minister of Communications, to permit other operators to provide telecom services using our network. Such access to our network would lower the entry barriers for potential new competitors and increase the likelihood of additional new competitors entering the mobile telephone market in Israel. Our capacity is limited, and if we are required to allocate capacity to other operators, the services to our subscribers may be harmed or we may be required to invest additional capital in order to enable additional use of our network. If we fail to agree with new operators that are given access to our network regarding the tariffs for the usage of our infrastructure, the Ministry of Communications may determine those tariffs. In addition, operators, such as MVNOs, could offer mobile telecommunication services to our current customers at prices that are lower than our prices, thereby reducing our market share. If the Ministry of Communications sets those tariffs too low, this may adversely affect our financial condition.

Our company is controlled by a single shareholder.

As of March 31, 2006, our controlling shareholder, Hutchison Telecommunications International Limited, or Hutchison Telecom, held approximately 51.6% of our shares.

Hutchison Telecom has the ability to influence our business through its ability to control all actions that require shareholder approval and through its representatives on our Board of Directors. Hutchison Telecom is not obligated, however, to provide us with financial support or to exercise its rights as a shareholder in our best interests or the best interests of our minority shareholders and noteholders, and it may engage in activities that conflict with such interests. If the interests of our controlling shareholder conflict with the interests of our other shareholders and noteholders, those shareholders and noteholders could be disadvantaged by the actions that this controlling shareholder chooses to pursue. In addition, our controlling shareholder may cause our business to pursue strategic objectives that may conflict with the interests of our other shareholders and noteholders.

We benefit from our relationship with Hutchison Telecom and Hutchison Whampoa, who are global leaders in the mobile telecommunications market. We cannot assure you that we will continue to enjoy the benefits of this relationship.

Hutchison Telecom and its major shareholder, Hutchison Whampoa Limited, or HWL, are global leaders in the mobile telecommunications market, and we rely on and benefit from the assistance, knowledge and experience of Hutchison Telecom and HWL, for example, in connection with our ability to access supply of 3G handsets on favorable pricing terms. In December 2005, HWL announced the acquisition by Orascom Telecom Holding S.A.E. of an indirect 19.3% interest in Hutchison Telecom. See below - Our telecommunications license imposes certain restrictions on who can own our shares. If these restrictions are breached, we could lose our license. We cannot assure you that Hutchison Telecom will continue to be our controlling shareholder or that HWL will continue to be a major shareholder of Hutchison Telecom. Nor can we assure you that if Hutchison Telecom ceases to be our controlling shareholder, or HWL ceases to be a major shareholder of Hutchison Telecom, that we will continue to enjoy the benefits of our relationship with Hutchison Telecom and HWL that we currently do.

Operating a mobile telecommunications network involves the inherent risk of fraudulent activities and potential abuse of our services, which may cause loss of revenues and non-recoverable expenses.

There is an inherent risk of potential abuse by individuals, groups, businesses or other organizations that use our mobile telecommunications services and avoid paying for them. The effects of such fraudulent activities may be, among others, a loss of revenue and out of pocket expenses which we will have to pay to third parties in connection with those services, such as interconnect fees, payments to international operators or to operators overseas and payments to content providers. Such payments may be non-recoverable. Although we are taking measures in order to prevent fraudulent activities, we have suffered in the past, and may suffer in the future, from these activities. The financial impact of fraudulent activities that have occurred in the past has not been material. However, we cannot assure you that fraudulent activities, if they occur in the future, will not materially affect our financial condition and results of operations.

We are dependent upon our ability to interconnect with other telecommunications carriers. We also depend on Bezeq and other suppliers for transmission services. The failure of these carriers to provide these services on a consistent basis could have a material adverse effect on us.

Our ability to provide commercially viable mobile telephone services depends upon our ability to interconnect with the telecommunications networks of existing and future land-line, mobile telephone and international operators in Israel in order to complete calls between our customers and parties on the land-line or other mobile telephone networks. All land-line, mobile telephone and international operators in Israel are legally required to provide interconnection to, and not to discriminate against, any other licensed telecommunications operator in Israel. We have signed interconnect agreements with Pelephone, Cellcom and MIRS, the other mobile telephone network operators in Israel, and with the Israeli international operators Bezeq International, Barak, Netvision, Internet Gold and Exfone. We have an operating arrangement with Golden Lines. We are currently operating without any formal interconnect agreements with Bezeq. We are not aware of any interconnect agreement that Cellcom, Pelephone, or MIRS has signed with Bezeq. Our day-to-day arrangements with Bezeq substantially conform to a draft interconnect agreement negotiated with Bezeq. We have no control over the quality and timing of the investment and maintenance activities that are necessary for these entities to provide us with interconnection to their respective telecommunications networks. The failure of these or other telecommunications providers to provide reliable interconnections to us on a consistent basis could have a material adverse effect on our business, financial condition or results of operations.

We currently lease most of our transmission capacity from Bezeq, and we lease additional capacity from other suppliers, primarily Cellcom. We have no control over the quality and timing of the investment and maintenance activities that are necessary for these suppliers to provide us with transmission services. Disruptions, stoppages, strikes and slowdowns experienced by them may significantly affect our ability to provide mobile telephone services. In particular, Bezeq has experienced labor disputes with its employees, including stoppages, notably in recent years during the privatization process and as the liberalization of the telecommunications market in Israel developed. The failure by our suppliers to provide reliable transmission services to us on a consistent basis could have a material adverse effect on our business, financial condition or results of operations.

We can only operate our business for as long as we have a license from the Ministry of Communications.

We conduct our operations pursuant to a general license granted to us by the Ministry of Communications on April 7, 1998. Our license is valid until February 2022. Our license may be extended for an additional six-year period upon our request to the Ministry of Communications and confirmation from the Ministry that we have met certain performance requirements. We may request renewal of our license for successive six-year periods thereafter, subject to regulatory approval. We cannot be certain that our license will not be revoked, will be extended when necessary, or, if extended, on what terms an extension may be granted.

Furthermore, although we believe that we are currently in compliance with all material requirements of our license, the interpretation and application of the technical standards used to measure these requirements, including the requirements regarding population coverage and minimum quality standards, and other license provisions may not be certain, and disagreements have arisen and may arise in the future between us and the Ministry of Communications. We have provided a bank guarantee to the Ministry of Communications in the amount of US$10 million to guarantee our performance under our license. If we are found to be in material breach of our license, the guarantee may be forfeited and our license may be revoked.

Our telecommunications license imposes certain restrictions on who can own our shares. If these restrictions are breached, we could lose our license.

As with other companies engaged in the telecommunications business in Israel, our license requires that a certain minimum of the economic and voting interest, and certain other defined means of control, of our company be owned by Israeli citizens and residents or entities in their control. If this requirement were not complied with, we could be found to be in breach of our license and our license could be revoked. The Ministry of Communications amended our license effective April 14, 2005, reducing the required holdings by Israeli citizens and residents from 20% to 5%, which shall be held by our founding shareholders who are Israeli entities or their approved substitutes, and requiring that these shareholders appoint, at least, 10% of our board of directors. In addition, according to the amendment, among other things (i) we are required to appoint a Committee for Security Matters consisting only of members who have security clearance and security compatibility to be determined by the General Security Service and (ii) the Minister of Communications shall be entitled to appoint an observer to our board of directors and its committees subject to certain qualifications and confidentiality undertakings. See Item 4B. Regulation. In addition, no transfer or acquisition of 10% or more of any of such means of control, or the acquisition of control of our company, may be made without the consent of the Ministry of Communications. Our license also restricts cross-ownership and cross-control among competing mobile telephone operators, including the ownership of 5% or more of the means of control of both our company and of a competing operator, without the consent of the Ministry of Communications, which may limit certain persons from acquiring our shares. Shareholdings in breach of these limits relating to transfers or acquisitions of means of control or control of Partner could have two consequences. First, the shares that are in excess of the limits will be converted into dormant shares, with no rights other than the right to receive dividends or other distributions to shareholders, and to participate in rights offerings until such time as the consent of the Ministry of Communications has been obtained. Second, the breach of the limits could be the basis for revoking our license unless our founding shareholders or their approved substitutes hold an aggregate of at least 26% of our ordinary shares.

Our company is controlled by a single shareholder.

Our company is controlled by a single shareholder.

In December 2005, HWL, Hutchison Telecom s major shareholder, announced the acquisition by Orascom Telecom Holding S.A.E., or Orascom Telecom, of an indirect 19.3% interest in Hutchison Telecom, representing an indirect 9.98% interest in Partner at that time. As part of that transaction and, subject to the receipt of consent from the Ministry of Communications, Orascom Telecom may acquire a number of additional shares that represents approximately 3.69% of Hutchison Telecom s total outstanding shares. HWL (Hutchison Telecom s major shareholder) and Orascom Telecom also entered into a shareholders agreement extending certain corporate governance rights in respect of Hutchison Telecom. We have been informed that the Ministry of Communications is currently reviewing the transaction to ensure that no breach of our license has occurred as a result of this transaction. If the Ministry of Communications decides that a breach were to have occurred, this could be a basis for revoking our license or imposing new license conditions.

Our marketing strategy is, in part, based upon the international Orange brand. If our license agreement terminates or is revoked, we will lose one of our main competitive strengths.

Our marketing strategy is based upon the international Orange brand. We can operate our business under the Orange brand only if we have the right to use it under the brand license agreement with Orange International Developments Limited, a subsidiary of Orange plc. Under this license agreement, we are required to comply with the Orange brand guidelines established by Orange International. We have the right to use the Orange brand as long as we are able and legally eligible under the laws of Israel to offer telecommunications services to the public in Israel. However, the brand license agreement may be terminated by mutual agreement, or at our discretion, or by Orange International if a court determines that we have materially misused the brand and we continue to materially misuse the brand after such determination of material misuse. If we lose the right to use the Orange brand, our financial condition and results of operations may be materially adversely affected.

We depend on a limited number of suppliers for our network equipment. Our results of operations could be adversely affected if our suppliers fail to provide us with adequate supplies of network equipment or maintenance support on a timely basis.

We purchase our network equipment, such as switching equipment, base station controllers and base transceiver stations and network software, from Nortel, Ericsson and Nokia. Although our network utilizes standard equipment that is produced by several suppliers, we cannot be certain that we will be able to obtain equipment from one or more alternative suppliers on a timely basis in the event that any of these suppliers is unable to satisfy our equipment requirements. Our results of operations could be adversely affected if Nortel, Ericsson, Nokia or an alternative supplier fails to provide us with adequate supplies of equipment, as well as ongoing maintenance support, in a timely manner. In addition, our results of operations could be adversely affected if the price of network equipment rises significantly. In our experience, suppliers from time to time extend delivery times, limit supplies and increase the prices of supplies due to their supply limitations and other factors.

We may be adversely affected by regulatory developments relating to number portability.

Pursuant to legislation passed on March 29, 2005, the Ministry of Communications is putting regulatory measures into place that would require mobile and land-line telephone operators to implement number portability, which would permit mobile and land-line network subscribers in Israel to change network operators without having to change their telephone numbers. According to the legislation, each operator must institute the necessary technology in its system for number portability by April 30, 2006, complete all necessary coordination with the other operators by July 31, 2006, and implement the number portability plan by September 1, 2006 (an extension of up to three months may be granted under certain circumstances). Because this will eliminate one of the major barriers that we believe currently prevents subscribers from changing network operators, we expect that number portability will increase competition in our industry and increase churn and may increase subscriber acquisition and retention costs. In addition, we cannot be sure how implementation of number portability will affect the overall functioning of our network and billing systems. Partner is a member of a 12-operator forum (including land-line, cellular, and international call operators) involved in a program plan to implement number portability. As of December 31, 2005, the head of the forum had notified the General Manager of the Ministry of Communications as well as the Minister of Finance that the operators will not be able to implement the plan by September 1, 2006, as scheduled, and requested an extension of approximately one year to implement the program. If we do not receive such an extension, we will probably not meet the statutory deadline, and we may be exposed to legal claims and financial sanctions that may have an adverse financial impact on us. Furthermore, we expect to incur material expenditures during 2006 in order to meet the technological challenges presented by the requirement to comply with the expected regulatory measures implementing number portability.

Although we cannot predict with certainty the consequences of number portability, including the response of mobile telephone subscribers following the implementation of number portability, these developments may have a material adverse effect on our business and on the overall functioning of our system.

Our business may be impacted by the shekel exchange rate fluctuations and inflation.

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, through December 31, 2005, a substantial amount of our operating expenses were linked to non-shekel currencies. These expenses related mainly to the acquisition of handsets where the price paid by us is based on various foreign currencies. In addition, a substantial majority of our capital expenditures (including with respect to our 3G networks) are incurred in, or linked to, non-shekel currencies. Thus, any devaluation of the shekel against the dollar (or other foreign currencies), will increase the shekel cost of our non-shekel denominated or linked expenses and capital expenditures.

Such an increase may have an adverse impact on our results, which may be material. Material changes in exchange rates may cause the amounts that we must invest to increase materially in shekel terms.

Our company is controlled by a single shareholder.

We hedge a portion of our foreign currency commitments. As of December 31, 2005, the notional amounts of our foreign currency derivatives were approximately US$28 million. Our derivative transactions are mainly designed to hedge the cash flows related to anticipated payments in respect of purchases of handsets and capital expenditures in foreign currency.

Our bank credit facility borrowings and Notes due 2012 are currently in shekels, most of which are linked to the Israeli consumer price index, or CPI. We may not be permitted to raise our tariffs pursuant to our license in a manner that would fully compensate for any increase in the Israeli CPI. Therefore, an increase in the rate of inflation may also have a material adverse impact upon us by increasing our financial expenses without an offsetting increase in revenue. We enter into derivative transactions in order to protect ourselves from an increase in the CPI. As of December 31, 2005, the notional amounts of our CPI derivatives were approximately NIS 1,500 million (or approximately two-thirds of our CPI exposure).

Identification of significant deficiencies or material weaknesses as a result of our implementation of procedures designed to comply with Section 404 of the Sarbanes-Oxley Act of 2002 relating to evaluation of our internal control over financial reporting may have an adverse impact on our financial condition and results of operations and the trading price of our shares.

Commencing with our annual report on Form 20-F for the year ending December 31, 2006, we will include a report from our management relating to its evaluation of our internal control over financial reporting as required under Section 404 of the U.S. Sarbanes-Oxley Act of 2002. As a consequence of systems and procedures currently being reviewed and implemented to comply with these requirements, we may uncover circumstances that may be determined to be significant deficiencies or material weaknesses, or that may otherwise result in disclosable conditions. Although we intend to take prompt measures to remediate any such identified significant deficiencies or material weaknesses in our internal control structure, measures of this kind may involve significant effort and expense, and any disclosure of such significant deficiencies, material weakness or other disclosable conditions may result in a negative market reaction.

The political and military conditions in Israel may adversely affect our financial condition and results of operations.

The political and military conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners and political instability within Israel or its neighboring countries are likely to cause our revenues to fall and harm our business.

Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on our business, financial condition or results of operations.

Some of our directors, officers and employees are currently obligated to perform annual reserve duty. Additionally, all reservists are subject to being called to active duty at any time under emergency circumstances. We cannot assess the full impact of these requirements on our workforce and business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of these obligations.

During an emergency, including a major communications crisis in Israel s national communications network, a natural disaster, or a special security situation in Israel, control of our network may be assumed by a lawfully authorized person in order to protect the security of the State of Israel or to ensure the provision of necessary services to the public. During such circumstances, the government also has the right to withdraw temporarily some of the spectrum granted to us. We cannot assure you that we are fully prepared for every disaster or emergency situation, or that we could recover fully from any such occurrence. This may materially harm our ability to provide services to our subscribers in such emergency circumstances.

Our high leverage could adversely affect our financial health.

We are highly leveraged. On December 31, 2005, our total long-term indebtedness was approximately NIS 2,688 million ($584 million). This debt represents approximately 76.7% of our total capitalization (bank loans plus Notes payable plus shareholders equity) on December 31, 2005. Our credit facility and the indenture governing the Notes due 2012 currently permit us to incur additional indebtedness, subject to some limitations.

Our substantial debt could adversely affect our financial health by, among other things:

- increasing our vulnerability to adverse economic, industry or business conditions or increases in prevailing interest rates, particularly because a substantial portion of our borrowings is linked to the Israeli consumer price index, or CPI;

- limiting our flexibility in planning for, or reacting to, changes in our industry and business as well as the economy generally;

requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, which reduces the funds available for operations and future business development; and

limiting our ability to obtain the additional finance we need to operate, develop and expand our business.

Our credit facility contains a number of restrictions and obligations that limit our operating and financial flexibility.

Our credit facility contains a number of restrictive covenants that limit our operating and financial flexibility. These covenants, among other things, restrict our ability to pledge our assets, enter into certain types of lease financing, dispose of assets, make loans or give guarantees, make certain acquisitions or engage in mergers or consolidations, incur borrowing (other than permitted borrowings, as defined), make any substantial change to the nature of our business or engage in any other business. Our credit facility also contains covenants regarding achieving certain levels of financial ratios during the term of the facility.

Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. There can be no assurance that such obligations will not materially adversely affect our ability to finance our future operations or the manner in which we operate our business. In particular, any non-compliance with performance-related covenants and other undertakings of our credit facility could result in an acceleration of our outstanding debt under our credit facility and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition or results of operations.

We cannot assure that we will distribute dividends in the future, nor the amounts of any such dividends.

In the third quarter of 2005, our Board of Directors and shareholders approved the distribution of our first cash dividend, in the amount of NIS 0.57 per share, totaling approximately NIS 86.4 million. In the first quarter of 2006, our Board of Directors and shareholders approved the distribution of an additional cash dividend in the amount of NIS 0.65 per share (totaling approximately NIS 100 million). In the second quarter of 2006, we adopted a dividend policy targeting a payout ratio of 60% of net income over 2006. As part of this policy, our Board of Directors approved the distribution of a cash dividend of NIS 0.45 per share (totaling approximately NIS 70 million) for the first quarter of 2006. Restrictions under Israeli Law and those contained in our credit facility limit the amount of dividends we may pay. In addition, our board may not decide to distribute dividends in the future.

The recently enacted Class Actions Law, 2006 may increase our exposure to class action lawsuits.

The recently enacted Class Actions Law, 2006, *inter alia*, expands the causes of action for which a class of litigants may bring suit. The new law may increase the number of requests for approval of class actions against the Company and may increase our legal exposure as a result of such class action lawsuits and, as a result, may materially and adversely affect our financial results.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

We were incorporated in Israel under the laws of the State of Israel on September 29, 1997 as Partner Communications Company Ltd. Our products and services are marketed under the Orange Brand. Our principal executive offices are located at 8 Amal Street, Afeq Industrial Park, Rosh Ha ayin 48103, Israel (telephone: 972-54-7814-888). Our website address is www.orange.co.il. Information contained on our website does not constitute a part of this annual report. Our agent for service in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011.

In our short history, we have achieved a number of important milestones:

In April 1998, we received our license to establish and operate a mobile telephone network in Israel.

In August 1998, we finalized our long-term credit facility to support our network and business roll out.

By October 1998, we completed our initial network roll out with approximately 77% coverage of the Israeli population, enabling us to commence the soft launch of our services to a test market of targeted customers.

By January 1999, we had launched full commercial operations with approximately 88% population coverage, established a nationwide distribution network and were offering full services with an extensive media campaign.

In October 1999, we completed our initial public offering of ordinary shares in the form of American Depositary Shares, and received net proceeds of approximately NIS 2,092 million, with the listing of our American Depositary Shares on NASDAQ and the London Stock Exchange. We used part of these net proceeds to repay approximately NIS 1,494 million in indebtedness to our principal shareholders, and the remainder to finance the continued development of our business.

In June 2000, we introduced our pre-paid subscriber plan, known as Big Talk. At December 31, 2004, we had 700,000 subscribers, or approximately 30% of our total subscriber base, in this plan.

In July 2000, we amended our long-term credit facility, increasing the amount available to up to $750 million.

In August 2000, we completed an offering, registered under the US Securities Act of 1933, as amended, of $175 million (approximately $170.5 million after deducting commissions and offering expenses) in 13% unsecured senior subordinated notes due 2010.

In March 2001, we received a special license issued by the Ministry of Communications, allowing us to provide internet services.

On March 31, 2001, we had over 1,000,000 subscribers.

In July 2001, we registered our ordinary shares for trading on the Tel Aviv Stock Exchange.

In December 2001, the Ministry of Communications awarded us two bands of spectrum: one band of GSM 1800 spectrum and one band of UMTS third generation spectrum.

On December 26, 2001, we filed a shelf registration statement under the US Securities Act of 1933, as amended, registering $400 million of debt securities and ordinary shares for possible offer and sale.

In June 2002, our license was extended until February 2022.

In December 2002, we amended our senior credit facility in order to further tailor it to our business plan.

By August 2003, we had over 2,000,000 subscribers.

In November 2003, we entered into a framework agreement with Nortel Networks to supply what is expected to be Israel s first third generation UMTS wireless network.

In December 2004, we commercially launched our 3G network, having implemented our soft launch in June 2004.

In March 2005, we completed a debt offering, raising NIS 2.0 billion in a public offering in Israel of the Notes due 2012. In April 2005 we entered into a new credit facility as part of our 2005 Refinancing, consisting of a $450 million term loan facility and a $100 million revolving loan facility, replacing our previous bank facility. In May 2005, we exercised an option to reduce the term facility from $450 million to $150 million.

In April 2005, we used approximately NIS 1,074 million of the proceeds from our 2005 Refinancing to repurchase approximately 33.3 million shares from our Israeli founding shareholders, representing approximately 18.1% of our outstanding shares immediately before the repurchase.

In August 2005, we redeemed our outstanding $175 million 13% Senior Subordinated Notes, due 2010.

In the third quarter of 2005, our Board of Directors and shareholders approved the distribution of our first cash dividend, in the amount of NIS 0.57 per share, totaling approximately NIS 86.4 million to our shareholders of record as of September 26, 2005.

On January 22, 2006, we signed an agreement with MED I.C. 1 (1999) Ltd., a transmission and hosting company, to purchase its fiber-optic transmission business for approximately $14.8 million, subject to certain adjustments, in order to enable us to reduce our transmission costs as well as to provide our business customers with bundled services of transmission of data and voice. Completion of the transaction is subject to the satisfaction of various closing conditions, including, approval by the Ministry of Communications.

In the first quarter of 2006, our Board of Directors and shareholders approved the distribution of an additional cash dividend in the amount of NIS 0.65 per share (totaling approximately NIS 100 million) to our shareholders of record as of April 10, 2006.

In the second quarter of 2006, we adopted a dividend policy targeting a payout ratio of 60% of net income over 2006. As part of this policy, our Board of Directors approved the distribution of a cash dividend of NIS 0.45 per share (totaling approximately NIS 70 million) for the first quarter of 2006 to shareholders of record as of June 6, 2006.

Our net capital expenditures for the first fiscal quarter of 2006 were approximately NIS 67.7 million. For more information on our capital expenditures for the last three financial years, see Item 5B. Liquidity and Capital Resources Commitments and Contractual Obligations .

4B. Business Overview

We were the first GSM mobile telephone network operator in Israel and on December 1, 2004, commercially launched our UMTS third generation, or 3G, service. We received our mobile telephone license in April 1998 and commenced full commercial operations of our digital GSM mobile telephone network in January 1999. Since then, we have expanded rapidly, and on December 31, 2005, we had approximately 2.59 million subscribers, representing an estimated 32% of total Israeli mobile telephone subscribers at that date. During the twelve months ended December 31, 2005, we increased our customer base by approximately 8.07%. At December 31, 2005, approximately 50% of our private subscribers had post-paid tariff plan contracts with us, approximately 30% of our subscribers were in pre-paid subscriber plans, and approximately 20% of our total subscribers were business subscribers. As of December 31, 2005, we also had more than 100,000 3G customers, all of whom are post-paid subscribers.

We market our services by capitalizing on the strong international Orange brand and the experience of our largest shareholder, Hutchison Telecom. The Orange brand, which is licensed to us, has been used successfully in other markets to promote mobile telephone services. Market surveys show that we have achieved strong brand awareness in Israel. We have also received awards recognizing our high standards of customer service. In 2005 we were named by both Globes Israeli business daily newspaper as well as by the Israeli daily newspaper, Yediot Ahronot, as the number-one provider of customer service in Israel in the telecommunications market.

We currently operate our GSM network in the 900 MHz and 1800 MHz bands. Our GSM network covers approximately 97% of the Israeli population. Our GSM services include standard and enhanced GSM services, as well as value-added services and products such as roaming, voice mail, voice messaging, color picture messaging, icon, ringtone and game downloads, information services, General Packet Radio Services, or GPRS, which enables the packet transfer of data in an always on mode at a speed of up to 20-30 Kbps, personal numbering and data and fax transmission services.

Our 3G network, which as of the end of 2005 covered approximately 92%, of the Israeli population, offers a wide range of new services, such as video calls, a new portal of content services including a rich selection of video-based services under the obox live brand, and the transmission of data at speeds of up to 384 Kbps.

In March 2006, we soft launched HSDPA to the business sector, which is a technological enhancement to our 3G services and offers subscribers the ability to access our 3G services at higher speeds. We offer an HSDPA data card modem which enables our subscribers to access our network at higher speeds. We soft launched HSDPA with limited coverage in the center of Israel and plan to expand the coverage area gradually.

We have set forth in the following table an estimate of each operator s share of total subscribers in the Israeli cellular market at December 31, 2001, 2002, 2003, 2004 and 2005:

Market Share*	**2001**	**2002**	**2003**	**2004**	**2005**
Partner	27%	29%	31%	32%	32%
Cellcom	41%	39%	35%	34%	33%
Pelephone	28%	28%	30%	30%	30%
MIRS	4%	4%	4%	4%	5%

* Based on information contained in published reports issued by, and public statements made by, Pelephone and Cellcom or by their respective shareholders and from Partner subscriber data. The figures for MIRS are our estimates.

We operate in one business segment, mobile telephony and related services, and one geographic segment, Israel.

Overview of Mobile Telecommunications Industry in Israel

There are currently four mobile telephone network operators in Israel: Partner, Pelephone, Cellcom and MIRS. Pelephone is an Israeli corporation wholly owned by Bezeq, the land-line operator in Israel. The major beneficial owner of Bezeq following Bezeq s privatization during 2005 is an entity comprised of the S.C.G. Group (Haim Saban), the Apax Fund, and Arkin Communications (Mori Arkin). Pelephone currently operates nationwide mobile telephone networks in Israel using both the N-AMPS analog and the CDMA digital system and recently upgraded its network to CDMA1x. The major beneficial shareholders of Cellcom are Discount Investment Corporation Ltd, DIC Communications Ltd., and PEC Israel Economic Corporation. Cellcom operates nationwide mobile telephone networks based on GMS 1800 MHz and D-AMPS technologies. In 2004, further technological enhancements were introduced by our competitors, with Cellcom announcing commercial service over UMTS/HSDPA spectrum and Pelephone announcing the implementation and commercial offering of EV-DO technology. MIRS is an Enhanced Specialized Mobile Radio, or trunking, iDEN network. MIRS s major shareholder is Motorola Communications (Israel) Ltd.

In addition, the Palestine Telecommunication Co. Ltd., or Paltel, operates a GSM mobile telephone network under the name Jawwal in the Palestinian Authority administered areas of the West Bank and Gaza Strip, as well as a land-line network. Paltel s GSM network competes with our network in some border coverage overlap areas.

Mobile telephones were first introduced in Israel in 1986. For the first eight years of operations the growth of mobile telephone services in Israel was slow. There was a single operator, Pelephone, offering analog service, and prices were relatively high. It was not until the end of 1994, and the launch of the second mobile telephone operator, Cellcom, that growth in mobile phone usage in Israel increased significantly.

Since the end of 1996, there has been continued strong growth in the Israeli mobile telephone market. Market data from industry sources indicates that the total market size was approximately 7.9 million subscribers at December 31, 2005, representing approximately 113% of the Israeli population.

In an auction process completed in December 2001, the Ministry of Communications awarded us the two additional bands of spectrum for which we had submitted bids: one band of GSM 1800 spectrum and one band of UMTS third generation spectrum. Cellcom was also awarded a band of GSM 1800 spectrum in the auction and began providing GSM 1800 services in the second half of 2002. Cellcom and Pelephone were also each awarded one band of UMTS third generation spectrum in the auction.

The following are some of the special characteristics that we believe differentiate the Israeli market from other developed mobile telecommunications markets:

High Mobile Phone Usage. Israeli usage of mobile phones is relatively high compared to Western Europe.

Calling Party Pays. In Israel, only the party originating a telephone call pays for the airtime (except for 1-800 numbers). Mobile telephone network operators do not charge subscribers to receive calls on their handsets, except while roaming. This encourages higher rates of mobile telephone usage.

High Mobile Telephone Penetration. Since Cellcom s launch in 1994, the market has sustained a rapid annual rate of growth from a 2.6% penetration rate at year-end 1994 to an estimated penetration rate in Israel at December 31, 2005 of 113% representing approximately 7.9 million subscribers. This may include dormant subscribers and subscribers to multiple networks as well as other subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers.

Multiple Different Mobile Telephone Technologies. The four mobile telephone licensees in Israel have systems based on multiple technologies. Pelephone uses the N-AMPS analog, the CDMA and CDMA1x digital systems, and the EVDO system, and Cellcom uses the D-AMPS,GSM/GPRS, EDGE, and UMTS/ High Speed Downlink Pack Technologies (HSDPA) systems. MIRS uses an iDEN system. We are currently one of two network operators using a GSM digital system and a UMTS system. GSM is an advanced, internationally accepted technology, and according to an industry source, was used by approximately 1.8 billion people worldwide as of March 31, 2006.

Favorable Geography. Israel covers an area of approximately 8,000 square miles (20,700 square kilometers) and its population tends to be centered in a small number of densely populated areas. In addition, the terrain of Israel is relatively flat. These factors facilitate the roll out of a cellular network in a cost effective manner.

Strong Potential For Value-Added Services. Published market data shows that the relatively young Israeli population has a propensity to accept and use high technology products. We believe that this characteristic of the Israeli population will facilitate further growth in the Israeli mobile telecommunications market as well as the acceptance of new value-added services as they become available on our network.

Strategy

Our aim is to continue to increase profitability and to maintain subscriber growth. To achieve this objective, we are pursuing the following strategies:

Achieve Leadership in 3G Services. We believe that demand for 3G services will provide an important source of future mobile subscriber growth and usage in Israel. As a result, we are leveraging our brand and our outstanding reputation for network quality, innovation, and customer service to develop our 3G business in order to benefit from that growth. We aim to offer desirable content and to make our 3G services widely accessible and affordable.

Retain the Strength of our Brand. We believe that a focused marketing strategy based upon the strong international Orange brand is critical to our subscriber growth and loyalty. In light of the benefits that our strong brand gives us, we intend to continue to promote our brand, including in connection with our 3G services, in order to maximize these advantages. We also intend to support our brand by continuing to focus on customer service, innovation and the quality of our network.

Be First in Technology. We believe that we have benefited historically from being a first-mover in technology, and aim to retain this first-mover advantage in order to drive our future subscriber growth. We believe that we will have an advantage in our ability to gain subscribers by continuing to capitalize on technological innovation in this manner in the future.

Competitive Strengths

We believe that the following competitive strengths differentiate us from our competitors and will assist us in achieving our mission and implementing our strategies:

Strong Brand Identity. Since the launch of full commercial operations, we have made a substantial investment in promoting the Orange brand in Israel to represent quality, innovation and customer service. Our marketing activities have resulted in wide-scale recognition of the Orange brand in Israel.

3G Services. As of December 31, 2005, we had an Israeli nationwide UMTS network, which offers high speed data, advanced video content and video telephony. Cellcom does not yet have a nationwide UMTS network, and Pelephone has an EVDO network without the ability to offer video calling. We believe that as of December 31, 2005, we offered the market s most advanced and comprehensive 3G services.

Focus on Customer Service. We believe we provide outstanding customer service through quick, simple and reliable handling of customer needs and interactions, which we have achieved through investments in technology and training of customer service skills. In 2004, we were named by the Israeli Management Institute as the best provider of customer service in Israel for the third year in a row in the telecommunications market. In 2005, we were named by both Globes Israeli business daily newspaper, as well as by the Israeli daily newspaper, Yediot Ahronot, as the number one provider of customer service in Israel in the telecommunications market. We also believe that we have achieved high customer loyalty, as evidenced by our customer churn rate of 13.6%for the year ended December 31, 2005.

High Quality Network and Technology Leadership. We believe that we set high standards for network quality and that our use of sophisticated network planning and optimization tools and techniques and our investment in dense base station coverage have produced a high quality network. Additionally, we believe that we are a recognized leader in the development and provision of mobile services in Israel and worldwide

Beneficial Relationship with Hutchison Telecom. Our largest shareholder, Hutchison Telecom and its major shareholder, HWL, are global leaders in the 2G and 3G mobile telecommunications market. Hutchison Telecom has a substantial interest in a 3G operating company in Hong Kong, and HWL has a substantial interest in 3G operating companies in Austria, Australia, Denmark, Ireland, Italy, Sweden and the United Kingdom. We derive benefits from the knowledge and experience of Hutchison Telecom and HWL and from a cost sharing agreement with certain members of the HWL group of companies for the joint acquisition and development of information technology platforms and software solutions, hardware, content and other services in connection with our 3G business. In particular, our relationship with Hutchison Telecom and HWL enhances our competitive position in the provision of 3G services by giving us access to supply of 3G handsets on favorable terms.

Strong Financial Performance and Financial Position. Our net cash provided by operating activities less net cash used in investing activities has improved significantly and has grown from negative NIS 1,163.0 million in the year ended December 31, 2000 to positive NIS 459.6 million in the year ended December 31, 2005.

Strong and Motivated Management Team. Since our inception, we have been able to attract a number of Israeli senior managers from the telecommunications, high-tech and consumer products industries. Our management team has a strong track record of successfully managing our company from our start-up phase in 1998 to our position today as the leading provider of GSM and UMTS services in Israel. We believe that our performance-based incentive package aligns the interests of senior management with those of our investors.

Marketing and Brand

We believe that a focused marketing strategy is critical to support our goal of sustaining our position as a leading provider of quality and innovative mobile communications solutions in Israel. Our marketing strategy is based upon the strong international Orange Brand and emphasizes network quality, feature rich services, simplicity, innovation and customer service. In carrying out this strategy we have made a substantial effort in promoting the Orange Brand in Israel as a vehicle for differentiating our services from those of our competitors. We believe the brand, which is licensed to us, has been a significant factor in our success.

Our marketing strategy is based on the concept of high value for money and introducing advanced services for subscribers. In order to carry out our strategy, we offer our subscribers competitive tariffs, technologies and services that we believe are advanced, including our 3G services as well as our GPRS services. During 2005, the primary objective of our marketing strategy was to increase our 3G subscriber base and 3G usage by our customers.

We commercially launched our 3G network on December 1, 2004, having implemented our soft launch in June 2004, when we distributed 3G handsets to selected customers for the purpose of evaluating the quality of our 3G network and services. As of December 31, 2004, we had approximately 8,000 3G subscribers, and as of December 31, 2005 we had more than 100,000 3G subscribers. As of the end of 2005, our 3G network covered approximately 92% of the population of Israel. During 2006 we plan to further expand our 3G population coverage. Our 3G network offers a wide range of new services, such as video calls, which are currently offered exclusively by us; a new portal of content services including a rich selection of video-based and MP3 based services under the obox live bran;, and the transmission of data at speeds of up to 384 Kbps. We have concluded content agreements with a variety of content providers and suppliers in the Israeli television and entertainment industry. As a result of our relationship with Hutchison Telecom and HWL, we have a supply of 3G handsets on favorable pricing terms. As of December 31, 2005, we offered our 3G services with four different handsets and one 3G data card.

In order to promote our advanced new services and to increase awareness of these services, we are taking many promotional steps, using a broad range of advertising media. We also intend to maintain our advertising presence in the media in order to maintain high exposure for our brand and advanced technologies. During 2005, our main advertising activities focused on promoting the subscribership and usage of the 3G services. Our marketing strategy focuses on promoting our services to various segments of the Israeli population, and we have extended this to our 3G services. We advertise our services in several languages. In addition to traditional media, we promote our brand and services by sponsoring and initiating cultural and community programs, such as a special events program on the Passover holiday, a three-day international music festival held in the Haifa harbor, a lecture by the conductor and author, Benjamin Zander, for our business customers and the International Film Festival, a major cultural event in Israel that takes place every year in Jerusalem and attracts international attention. We usually focus our sponsorship activities on events which are of an international nature to support the international value of the brand. We use the distinctive Orange Brand logo in all our promotional activities and advertising.

At December 31, 2005, approximately 20% of our subscribers were business subscribers. We are continually developing tailored value-added services to meet the special needs of business subscribers.

We have a license to use the Orange Brand. Under the brand license agreement, we have the right to use the Orange Brand in connection with promoting our network services in Israel for as long as we hold a license to operate a mobile telephone system in Israel. See Item 4B. Information on the Company Business Overview Intellectual Property.

Services and Products

Our principal business is the provision of mobile telephone services in Israel. Our goal is to offer our subscribers a wide range of sophisticated and easy to use services based upon the latest proven technology. Our most basic service is telephony service provided on both our GSM/GPRS network and our UMTS/HSDPA network. Our basic offer includes international dialing, roaming, voice mail, short message services, intelligent network services, content based on our mobile portal, data and fax transmission and other services. Our use of HSCSD, GPRS, UMTS and HSDPA technologies enables high speed data transmission. All our content services are unified under the obox brand; our 2G and 2.5G content services are all branded as obox; and our 3G services are branded as obox live. Our orange obox services enable the downloading of rich applications and content and WAP browsing, while our obox live services are enhanced by the video and audio capabilities of our UMTS network. Our MMS services enable subscribers to send photos, multimedia and animation from handset to handset and from handset to web. We also offer 24-hour, seven-day a week customer service, as well as handset repair and replacement services, to subscribers who acquire these services.

We received and maintain the accreditation of the ISO 9002 Standard from the Israeli Institute of Quality and Control. ISO 9002 is a quality management system specification whose requirements are aimed primarily at achieving customer satisfaction by preserving standardization at all stages, and throughout company processes.

Tariff Plans

Since the beginning of our full commercial operations, we have introduced tariff plans aimed at bringing innovation to the Israeli mobile communications market. Our tariff plans offer features attractive to business users such as: the charging of fees based on airtime usage without adding the interconnect charges imposed by other mobile and land-line providers for calls made by our subscribers that terminate on third party networks, and the provision of discounts for calls to designated numbers within a subscriber s calling circle. In addition, we usually offer handset subsidies to customers joining these tariff plans.

Our tariff plans aimed at private customers usually have no contractual obligations for a minimum subscription period. Such plans feature a certain number of free minutes for calls made between family members and offer limited handset subsidies. The elements of our tariff plans for private customers are packaged and marketed in various ways to create tariff packages attractive to target markets, including families, soldiers, Orthodox Jews, Arab and Russian communities, teens and students.

We offer our 3G customers similar rate plans to those that we offer to our 2G customers, but with an additional fixed monthly fee. In all of our 3G rate plans, video call minutes are charged at the same rate as voice call minutes. We also offer a pre-paid plan. Upon purchase of a phone card or prepayment by credit card, customers can use our network, including some of our value-added services, without the need to register with us or enter into any contract. Our pre-paid plans enable us to compete in the growing pre-paid mobile services market.

International Roaming

Israelis are frequent travelers. According to the Israel Central Bureau of Statistics, in 2005, more than 3.7 million overseas departures of Israelis were recorded, and almost 1.9 million people visited Israel during 2005. Roaming allows a mobile phone subscriber to place and to receive calls while in the coverage area of a network to which he or she does not subscribe and to be billed for such service by his or her home network. Facilitating international roaming was a primary design goal of the GSM system from its inception. A GSM roamer can therefore expect to enjoy substantially the same services, features and security while traveling as he does at home. We consider international roaming to be a significant source of revenue. The Ministry of Communications may introduce new regulations that would limit our revenues from roaming services. See Item 4. Information on the Company 4B. Business Overview Regulation.

At December 31, 2005, we had open commercial roaming relationships with 347 operators in 162 countries or jurisdictions. We also have agreements with satellite operators, providing global coverage, requiring the use of unique handsets, some of which can be used with the standard customer SIM card. Creating roaming relationships with multiple operators in each country increases potential incoming roaming revenue for us and gives our subscribers more choice in coverage, services and prices in that country.

On December 31, 2005, we had 3G roaming agreements with operators in 22 countries, enabling our 3G roamers to experience video calls, high speed data and video and audio content while abroad. Since we operate our GSM services on the 900 MHz band, which is the most widely-used among GSM operators worldwide in terms of handsets, and also on the 1800 MHz band, all of our roaming enabled subscribers may roam to most countries where we have roaming capability using their own handsets without modification. In some countries cellular networks use either the 1900 MHz band of GSM or other technologies (GSM 850, CDMA or UMTS) with which we have established international roaming. Our subscribers who own dual or tri-band handsets that work on GSM 1900 as well as GSM 900 may also use their own handsets in countries that deploy GSM 1900 frequency with networks using GSM 1900. Other subscribers who advise us of their intention to visit those countries are either loaned free of charge a compatible handset into which they insert their SIM, thus retaining their own phone number, phone book and all other regular features, or are given the option to rent such handsets at their destination upon their arrival. Since the launch of our 3G network, UMTS networks around the world are becoming gradually available to our 3G subscribers.

Value-Added Services

In addition to standard GSM value-added services, including voice mail, Short Message Service (SMS), voice messaging, fax mail, call waiting, call forwarding, caller identification and conference calling, we currently offer and are developing a variety of additional value-added services. Value-added network services are important to our business as they create differentiating factors and increase customer usage and satisfaction. We follow all major market developments regarding value-added network services, and we intend to implement and offer those services that are likely to be popular with customers and which would add value to our business. Some of the value-added services that we offer are available only to subscribers who have certain handset models.

Our main focus throughout 2005 was to market and develop our 3G services. During the year we launched our 3G content portal, which we branded as obox live and consists of advanced video and audio streaming and downloads. The main value-added services we currently offer include the following:

Blackberry. This service offers customers one of the most advanced mail solutions. We offer the Blackberry handset along with the Blackberry service, with Hebrew support for emails and SMS messages.

Call back. While roaming, this service allows subscribers to return calls to Israel at discounted rates.

Content Download. This service enables the downloading of rich applications and content, including games, interactive screensavers and polyphonic ringtones. Our 3G users can also download specially edited video clips, MP3 songs, MP3 ringtones and other content items. A small portion of our 2.5G customers can also download several video and MP3 items over our GPRS network. In order to use these download services, the users have to own specific handsets.

Fun Tone. Personal ring back tone which is subject to the customer preference, from a wide international library of music tracks or other types of audio elements (e.g. sound effects) which is heard when dialing to this customer.

High Speed Data. We offer high speed data transfer through circuit switched technology (via an infrastructure development that enables the transmission of data at a speed of up to 43.2 Kbps, which is higher than the 14.4 Kbps speed previously available on GSM networks), through GPRS (a technology that enables the packet transfer of data in an always on mode, at speeds of up to 20-30 Kbps) and through UMTS (a technology that enables the packet transfer of data in an always on mode, at speeds of up to 384 Kbps).

Information and Content Services. We provide voice, text-based, MMS-based and video-based information and content services. The voice-based information services are provided through IVR platforms, which include interactive information services and radio programs. Text based information services are provided through our current SMS and WAP technologies. Interactive information services include services such as: news headlines, sport news and results, weather reports in Israel and abroad, daily horoscopes and more. Some of these services are provided through our MMS or video-based technologies as well, and are offered to subscribers who own certain types of handsets. For purposes of these services we have relationships with content providers.

MMS Services. These services enable subscribers to send photos, multimedia and animation from handset to handset and from handset to e-mail, from handset to web album and from a web album to handsets, based on Multimedia Message Services (MMS) platform and on a web MMS storage album.

Orange Hotspots. A service that allows access from laptops to wireless networks, using WIFI technologies, from thousands of locations in Israel, overseas, and from airplanes.

Orange mail. Mobile e-mail services that enable access to e-mail accounts (private or business accounts) Through our WAP portal.

Organizational Voice Recognition. A service that allows for voice recognition of the names listed in a customer s global contact list. The customer is able to dial a number and ask for the contact person and the system connects the customer to that person.

PC to Mobile Video Calling. This service allows 3G subscribers to speak with any other party using an internet camera. This service expands the video telephony available to customers who do not have a 3G handset or are not within the 3G coverage area.

SIM Backup. This service allows customers to backup their phonebook entries on the SIM card on a network server. If the SIM card or phone is lost, the subscriber does not lose his contact list.

Speed Detectors. This service allows subscribers to receive a notice about speed detectors in their vicinity.

Vehicle Fleet Management. This service provides a comprehensive system for businesses to manage their vehicle fleet. It allows tracking the position, speed and direction of vehicles, which helps speed up delivery times, cut running costs and improve customer service. It provides the ability to assess at a glance which driver is best placed to respond to the next call, optimizing driver time, cutting fuel costs and improving efficiency. In addition, it provides the option to communicate with drivers via text messages.

Video and Audio Streaming. We provide our 3G customers (and a small portion of our 2.5G customers) the ability to watch video clips and to listen to full music tracks without downloading them to their handset. These services offer a wide range of information and entertainment clips to view and listen to, and enable the customer to watch live television broadcasts.

Video Calls. This service enables our 3G users (while in our 3G coverage area and with a 3G handset) to speak with each other through video conferences to hear and to see the other party simultaneously.

Video Mail. This service enables our 3G subscribers to send and receive video messages if the receiver is not available.

Virtual Private Network. User groups can be formed in multiple layers, and the members can then reach each other through short dialing codes, like extension numbers. This service is mostly used among business customers.

WAP Services. We have WAP technology that enables WAP-related services. WAP services create a significant incremental demand for content services and increase usage of our network.

Handsets

We provide handsets to our subscribers at discounts of up to 100% when they first become subscribers. The price at which the handset is provided depends upon the tariff package and special promotions.

We currently offer a range of different handset models supplied by a number of manufacturers. We offer handsets to satisfy our subscribers roaming needs in the 900 MHz, 1800 MHz and 1900 MHz bands and recently in 2100 MHz (UMTS) as well. Not all handsets support all band ranges. We evaluate the technical features of every new mobile handset and, if we decide to make it available to subscribers, we obtain a type approval from the Ministry of Communications for such handset. We advise our sales representatives and dealers on compatibility and technical issues. All our handsets are EFR compatible to provide high voice quality. Most of our handset models have Hebrew language displays. Because of the wide international acceptance of GSM technology, handset manufacturers generally make their latest model handsets available for use on GSM networks before networks based on other technology. We have begun selling some innovative handsets with enhanced applications, including multicolor, large screens with high resolution displays, high quality music performance and MMS capabilities. Pursuant to the launch of our 3G network, we sell 3G handsets that enable customers to make video calls, consume video and MP3 audio-based content services and use laptops with high-speed rates of data transmission.

Customer Division

Our Customer Division incorporates all service, sales and distribution channels, and on December 31, 2005, had approximately 2,400 full-time employees, including managers, sales representatives and service representatives.

Customer Service

Our customer support and service provides several channels for our customers: call centers, walk-in centers and self-services, such as IVR, web-based services and via SMS.

*Call Centers. G*uided by our aim to provide high quality service, our call-center services are divided into several sub-centers as follows: customer segment (business, private and pre-paid) and specialized support and services (finance, network, international roaming and data transfer related issues). The call center services are provided in four languages: Hebrew, Arabic, English and Russian.

Walk-in Centers. We currently operate 36 Partner owned service and sales centers covering almost all areas of Israel. These centers provide a face-to-face, uniformly designed, contact channel and offer all services that we provide to customers: sales, handset upgrade, handset maintenance and other services (finance, rate-plan changes, subscription to new services etc.). Several of these centers are focused on sales to both private and small business customers. These stores are located in central locations, such as shopping malls in Tel Aviv and its periphery, Jerusalem, Haifa and Be er-Sheba. Lease agreements for our retail stores and service centers are for periods of two to five years. We have the option to extend the lease agreements for different periods of up to twenty years including the initial lease period . The average size of our retail stores and service centers is approximately 230 square meters. See also Note 8a(3)(b) to our consolidated financial statements.

Self-Service. We provide our customers with various self-service channels, such as IVR, web-based services and service via SMS. These channels provide general and specific information, including tariff plans, account balance, billing related information and roaming tariffs. They also provide customers information regarding trouble shooting and handset-operation, and enable customers to activate and de-activate services and to download content.

All of our service channels are monitored and analyzed regularly in order to assure the quality of our services and to detect areas of which require improvement.

Sales and Distribution

We apply a multi-channel approach to target various market segments and to coordinate our sales strategy.

We distribute our services and products primarily through:

- Direct sales channels, which consist of Partner-owned sales centers and business sales representatives; and

- Indirect sales channels, which consist of traditional networks of specialized dealers and non-traditional networks of retail chains and stores that account for the majority of our sales.

Direct Sales Channels

Orange Sales and Service Centers All of our walk-in centers serve as sales centers. The face-to-face contact enables customers to get a feel and a touch of new handsets and services demonstrated by our representatives. The feel and touch approach enables us also to promote in particular our 3G products and services.

Direct Sales Force: Our sales force is comprised of sales representatives, account managers and area managers, targeting business customers.

A team of regional representatives and customer account managers, located in five regional offices, supports small to medium-sized businesses. This team primarily focuses on small- and medium-sized enterprises, which tend to use more airtime and yield higher margins.

A team of corporate representatives and customer account managers services large corporate customers.

Specialized VIP representatives provide service to opinion leaders and prominent individuals.

A door to door sales-force focuses on small business customers.

A telemarketing department conducts direct sales by phone (to private and business customers), initiates contacts to prospective customers and coordinates appointments for the sales representatives.

Our sales force undergoes regular training to improve their skills of selling advanced solutions such as mobile data, intranet extension and connectivity, virtual private networks and other value-added services that appeal to corporate customers.

Indirect Sales Channels

Traditional Dealer Networks. On December 31, 2005, we had agreements with 35 traditional dealers providing 44 points of sale, selling a range of our products. The private dealer network is an important distribution channel because of its ability to attract existing cellular users to our network. Our dealer network focuses primarily on sales to individual customers and, to a lesser extent, small business customers. Most of our dealers specialize in sales for post-paid customers, and others specialize on sales for pre-paid customers and distribution of pre-paid handsets to sub-dealers. Our dealers are highly professional and some of them have previous experience selling cellular services in Israel. In addition, we have specific dealers that target different segments of the Israeli population with the appropriate style, language and locations. We provide regular training to employees of our dealers to update them on our products and services. Our dealer managers visit dealers on a regular basis to provide information and training, answer questions and solve any problems that may arise. We pay our dealers competitive commissions and provide handset subsidies. However, dealers are not entitled to commissions for any customers that terminate their service within 60 days of activation.

Non-Traditional Dealer Networks. Non-traditional dealers consist of generalist retailers or specialized stores that sell related products. This distribution channel is not common in the Israeli cellular market today, and we believe that it provides us with a competitive advantage over and differentiates us from our competitors.

We have a contract with Super-Pharm , the largest drug-store chain in Israel, to sell our network services. At December 31, 2005, our services were sold in 96 Super-Pharm stores nationwide in a variety of formats, including Partner shop-in-shops, kiosks, wall-unit displays and at front counters. In 2005, approximately 13% of our new subscribers were recruited through sales by Super-Pharm . Under our agreement with Super-Pharm , Super-Pharm sells our network services in their stores, and we cooperate with them in establishing a chain of stores called Super-Link that is dedicated to selling communications services and equipment. The agreement between the parties, which has received the approval of the Israeli Commissioner for Restrictive Trade Practices, is in effect until May 31, 2006.

In addition, we continue to develop our distribution network with other non-traditional dealers, such as the Cellular Center for Vehicles , which has approximately 34 locations for the sale, installation and maintenance of car kits, and Auto Depot , which has nine such locations. Another non-traditional dealer is Eurocom Communications Ltd. See Item 7. Major Shareholders and Related Party Transactions. We provide regular training to the employees of our non-traditional dealers to update them on our products and services.

All indirect sales channels are supported by a specialized dealer support call center providing information, support and coordination of appointments of car-set installations.

Customer Contracts, Credit Policy, Billing Bad Debt and Disconnection

Part of our subscriber contracts for customers on our original tariff plans provide for a 36-month term. Under the terms of these contracts, customers who terminate their contracts prior to the expiration of the 36-month term and have purchased their handset from our dealers or from us can be charged for payment of the residual price of their handset. This charge reflects the difference between the price they paid for the handset, if any, and the list price, adjusted for the number of months that the customer has been a subscriber.

Most of our subscribers pay for the handsets in 36 installments, which is charged directly to their credit card or to their monthly bill. If the customer opts to pay for the installment via his monthly bill, the outstanding installment payments are not secured.

Subscribers are billed monthly for airtime charges and charges per services. Most of our business customers have signed 36-month contracts.

Most of our individual subscribers subscribe and pay for their services by credit card. All credit card accounts are subject to an initial maximum credit limit each month, which varies depending upon the type of credit card and for which we obtain prior approval from the card issuer. When a subscriber account reaches this limit, we may seek approval from the card issuer. If the card issuer does not grant the approval, we may require the customer to provide other means of payment or arrange an increase in the approved limit from his credit card issuer. If this does not occur, the customer s usage may be limited or suspended until we receive a cash deposit or guarantee from the customer.

All business subscribers and some of our individual subscribers can subscribe and pay for their services by credit card or direct debit. Customers acquiring more than eight handsets (or four in certain circumstances) are subject to a credit scoring review performed by outside credit agencies. All customers are subject to a monthly maximum credit limit. When the monthly limit is exceeded, usage may be limited. Roaming access for direct debit subscribers is subject to credit scoring by outside credit agencies and may require additional guarantees or credit checks. Subscribers are subject to periodic credit risk reviews, taking into consideration payment history, disconnection history and new circumstances.

Our Network

We have built an extensive, resilient and advanced mobile network system in Israel, allowing us to offer our services with extensive coverage and consistent high quality. Through December 31, 2005, we have made net capital expenditures of NIS 3,429 million ($745 million) in our network infrastructure and other related fixed assets.

Overview

The first generation of wireless communication, based on analog technology, provides simple voice telephony. The second generation of wireless communication, such as the digital GSM standard, provides additional data facilities ranging from short messaging services to narrow band data, which is sufficient for the basic data services offered by network operators, but cannot support high resolution video or multimedia applications.

New types of services are made possible by the roll out of technological developments that increase the speed and efficiency of existing GSM networks such as GPRS, which is a 2.5G technology. 2.5G technology network operators are able to deliver multimedia and services at speed rates that are higher than the rates offered through second generation technology. Packet data rates vary from 20 Kbps-44 Kbps, depending mainly on handset capabilities. Approximately 55% of our customers who have GPRS enabled handsets use and pay for GPRS services.

Third generation wireless communication, which offers full interactive multimedia capabilities at data rates of up to 384 Kbps, are bringing wire-free networks significantly closer to the capabilities of land-line networks. Improvements in coding and data compression technology will provide better voice quality and more reliable data transmission. UMTS is the global standard adopted for the implementation of third generation wire-free telecommunications. HSDPA is also part of 3G technology and enhances network output and performance. In March 2006, we soft launched HSDPA to the business sector, which offers subscribers the ability to access our 3G services at higher speeds. We offer an HSDPA data card modem which enables our subscribers to access our network at higher speeds. We soft launched the HSDPA with limited coverage in the center of Israel and plan to expand the coverage area gradually. HSDPA standards provide for download rates ranging from 1.8 Mbps, which is the current standard for roll-out, to up to 14.4 Mbps, which is envisaged for 2007.

Infrastructure

On December 31, 2005, our GSM network consisted of 1,549 macrobase transceiver stations and 714 microbase transceiver stations, all linked to 30 base station controllers. The base station subsystem is controlled by 11 mobile switching centers. Base transceiver stations, mobile switching centers and base station controllers are interconnected by approximately 4,190 transmission links. Ericsson and Nokia supply our base station controller and base transceiver station sites for our GSM and GPRS network.

On December 31, 2005, our UMTS network consisted of 1,280 macrobase transceiver base stations and 110 microbase and indoor transceiver stations, all linked to eight radio network controllers. The base station subsystem is controlled by one mobile switching center and one media gateway. The base transceiver stations, the mobile switching center and the radio network controllers are interconnected by approximately 1,400 transmission links. Nortel Networks and Ericsson supply our 3G UTRAN and core network equipment.

In addition, our network is interconnected with two public switched telephone companies: Bezeq and HOT, in several locations across Israel. Our network is also directly connected to the mobile networks of Pelephone, Cellcom, Mirs and the six Israeli international operators, Bezeq International, Barak, Golden Lines, Internet Gold, Netvision and Exfone, and indirectly to the land-line and mobile telephone networks of Paltel.

Our transmission network is made up of leased lines from Bezeq and Cellcom and our own microwave links. Currently most of our transmission network consists of leased lines. As our GSM network currently covers 97% of the Israeli population, we are now selectively expanding the capacity of our GSM network primarily in urban areas by adding infrastructure to improve outdoor and indoor coverage. We plan to continue increasing the capacity of our GSM network due to the growth of voice and data in the GPRS traffic.

On January 22, 2006, we signed an agreement with MED I.C. 1 (1999) Ltd., a transmission and hosting company, to purchase its fiber-optic transmission business for approximately $14.8 million, subject to certain adjustments, in order to enable us to reduce our transmission costs as well as to provide our business customers with bundled services of transmission of data and voice. Completion of the transaction is subject to the satisfaction of various closing conditions, including approval by the Ministry of Communications.

Our UMTS network covers the highly populated areas of Israel, including Tel Aviv and the Dan metropolitan area, Jerusalem, Haifa, Beer Sheba as well as smaller cities and major highways. We are continuing to expand and improve the coverage, capacity and quality of our UMTS network to additional areas. Current UMTS population coverage exceeds 92%.

Network Design

Our primary design objective is to build a UMTS mobile telephone network engineered to provide high voice, video and packet quality, call reliability, high capacity and high coverage quality and to maintain technological advantages over our competitors. In formulating our network design objectives, we have been guided by our business strategy to build the highest quality network. We follow high quality standards which exceed those set forth in our license. The quality parameters that we seek to satisfy are those that we believe are important to mobile phone users: voice quality, high data rate packet sessions, low blocked call rate, low dropped call rate and deep indoor penetration, especially in densely populated areas or areas of special commercial interest. The two main examined parameters used to measure network performance for voice and packet data are the setup call success rate and the drop calls rate. Blocked calls are calls that fail because access to the network is not possible due to insufficient network resources. Dropped calls are calls that are involuntarily terminated.

With these quality parameters in mind, we have rolled out our UMTS network, which shares locations with the GSM sites. We use monitoring probes and counters to ensure network quality.

Our transmission network design confers the following benefits: (i) necessary bandwidth for GSM and UMTS services; (ii) resilience; (iii) use of high transmission rate back-bone routes based on Synchronous Digital Hierarchy; and (iv) the ability to utilize a new generation of sophisticated technology to optimize the system and increase capacity where necessary. Our switching architecture is based on two transit switches connected to all of our systems and platforms.

Spectrum Allocation and Capacity

Spectrum availability is limited and is allocated by the Ministry of Communications through a licensing process. Pursuant to the terms of our license and subsequent allocations, we were allocated 2x10.4 MHz in the 900 MHz frequency band, of which 2x2.4 MHz are shared with Paltel in the West Bank and the Gaza Strip. We also have an agreement to use an additional 2x2.4 MHz of spectrum in the 900 MHz frequency band on a shared basis with Paltel. Under this agreement, which has been endorsed by the Ministry of Communications, we are permitted to use this additional spectrum in Israel so long as we do not cause interference in areas where Paltel operates.

In the December 2001 spectrum auction in Israel, the Ministry of Communications awarded us the two bands of spectrum for which we had submitted bids: 2 x 10 MHz of GSM 1800 spectrum and 2 x 10 MHz and 1 x 5 MHz of UMTS third generation spectrum. During 2002, we started deploying GSM 1800 MHz band base transceiver stations to enhance the capacity of our GSM 900 MHz network, and to further improve our GSM 900 MHz network s quality. Following a possible rearrangement of spectrum in the 900 MHz band, an additional 900 MHz spectrum may be offered to operators in the future. If one of our competitors is allocated this additional spectrum and not us, our network may face interference and we will no longer be the sole GSM operator operating both in the 900 MHz frequency band and in the 1800 MHz frequency band.

Other Systems

On December 1, 2004 we commercially launched our UMTS network with advanced applications and services including, among others, a 3G content portal offering a variety of services such as live TV broadcasts, JAVA games, maps and directions application, wide range of music (MP3) services and an e-commerce movie ticketing application.

We have installed a video gateway and a streaming server, enabling us to offer our customers a full range of video services on their 2.5G and 3G handsets.

Site Procurement

Once a new coverage area has been identified, our technical staff determines the optimal base station location and the required coverage characteristics. The area is then surveyed to identify antenna sites. In urban areas, typical sites are building rooftops. In rural areas, masts are usually constructed. Technical staff also identify the best means of connecting the base station to the network, for example, via leased or owned and operated microwave links or wired links leased from Bezeq. Once a preferred site has been identified and the exact equipment configuration for that site decided, we begin the process of obtaining necessary approvals.

The erection of most of these antennas require building permits from local or regional authorities, as well as a number of additional permits from governmental and regulatory authorities, such as:

erection and operating permits from the Ministry of the Environment;

permits from the Civil Aviation Authority, in certain cases; and permits from the Israeli Defense Forces.

See Item 4B. Information on the Company Business Overview Regulation for a description of the approvals that are required for the erection and operation of antenna sites.

Suppliers

Our network utilizes standard equipment, which is available from a limited number of suppliers. In November 2003, we entered into a framework agreement with Nortel Networks to supply us with our UMTS wireless network. Under the agreement, Nortel supplies us with mobile switching centers, radio network controllers, Node B s and other UMTS equipment In September 2005, we entered into a framework agreement with Ericsson as a second vendor for 3G UMTS/HSDPA infrastructure equipment. One of our major GSM equipment suppliers is Ericsson and its affiliates, which supply us with mobile switching centers, base station controllers, base transceiver stations, transit transmission centers, operation support systems and transmission systems equipment. Ericsson is also our major supplier of GPRS network equipment, including GPRS support nodes and gateway GPRS support nodes. Nokia also supplies us base station controllers, base transceiver stations and network management system equipment. We have agreements with Baran Raviv, Bintech and H. Mer, all Israeli engineering companies, for the construction of our sites. We continue to purchase certain network components from various other key suppliers. We believe that our network suppliers price structure is competitive with industry standards. See Item 3D. Key Information Risk Factors We depend on a limited number of suppliers for our network equipment. Our results of operations could be adversely affected if our suppliers fail to provide us with adequate supplies of network equipment or maintenance support on a timely basis.

Interconnection

All telecommunications providers with general licenses in Israel have provisions in their licenses requiring them to allow interconnection of their networks with all other telecommunications networks in Israel. Currently, our network is connected to all other telecommunications networks operating with general licenses in Israel. Our network is directly interconnected to the networks of the Israeli telecommunications operators Bezeq, Cellcom, Pelephone, MIRS, Bezeq International, Barak Golden Lines, Golden Lines and HOT. Our network is indirectly interconnected to the network of Netvision, Exfone, Internet Gold and Paltel through the Bezeq network for the purpose of bilateral transfer of calls. We are in the process of interconnecting our network to that of Golden Lines and GlobeCall which have recently been granted special licenses for the provision of land-line telephony.

We are currently operating without any formal interconnect agreements with Bezeq. We are not aware of any interconnect agreement that Cellcom, Pelephone or MIRS has signed with Bezeq. Our day-to-day arrangements with Bezeq substantially conform to a draft interconnect agreement negotiated with Bezeq. The interconnect rates charged by Bezeq are set by Israeli legislation and Bezeq is required by law not to discriminate against any licensed telecommunications operator in Israel with respect to the provision of interconnect services.

We currently pay Bezeq an interconnection fee based on a tariff structure set forth in the Interconnection Regulations (Telecommunications and Broadcasts) (Fees for Interconnection) (2000).

We have formal interconnect agreements with Cellcom, Pelephone and MIRS. The agreements have one-year terms and are renewable for an unlimited number of additional one-year terms. The agreements can be terminated on 90 days written notice by either party. The interconnect agreements with Cellcom, Pelephone and MIRS do not contain any pricing terms. The interconnection tariffs charged by Cellcom, Pelephone and MIRS are set forth in the Interconnection Regulations (Telecommunications and Broadcasts) (Fees for Interconnections) 2000 that, coupled with a change to the mobile telephone operators licenses, imposes a uniform call termination tariff for all mobile telephone operators. In addition we have a formal interconnect agreement with HOT, which came into effect in May 2005 and will remain in effect for five years. The interconnect agreement with HOT renews automatically for additional five-year terms. The agreement can be terminated on 90 days written notice by either party. The interconnection fees under our agreement with HOT are set by the Interconnection Regulations (Bezeq and Broadcasts) (Fees for Interconnection) (2000). Because we transfer and receive all traffic to and from Paltel s network through the Bezeq network, we pay Bezeq a transit fee for each call. In the beginning of 2004, the Ministry of Communications amended our license and the relevant regulations, reducing SMS termination tariffs from NIS 0.38 to NIS 0.285 effective May 1, 2004. In November 2004, the Ministry of Communications issued regulatory changes significantly reducing call termination tariffs, effective March 1, 2005, from NIS 0.45 to NIS 0.32, with additional reductions mandated as follows: effective March 1, 2006, to NIS 0.29 per minute; effective March 1, 2007, to NIS 0.26 per minute; and effective March 1, 2008, to NIS 0.22 per minute. At the same time, the Ministry of Communications reduced SMS termination tariffs, effective March 1, 2005, from NIS 0.285 to NIS 0.05, with an additional reduction mandated effective March 1, 2006 to NIS 0.025. A recent regulatory change linked call termination tariffs and SMS termination tariffs to the CPI, such that the call termination tariffs were adjusted to NIS 0.2969 per minute and the SMS termination tariffs were adjusted to NIS 0.0256. The tariffs described above will be adjusted each March to conform to changes in the CPI. In response to the tariff reductions described above, we implemented cost-cutting measures as well as price increases and repackaging of our tariff plans. Depending on the effectiveness of such steps, and other factors such as general market conditions, these regulatory changes may negatively impact our revenues and profits. See Regulation Telecommunications Law below.

We have written interconnect agreements with Bezeq International, Barak, Netvision, Internet Gold and Exfone. We currently have an operating arrangement with Golden Lines. The Ministry of Communications regulation and the change to the mobile telephone operators licenses also impose a uniform call termination tariff for incoming international calls of NIS 0.25 per minute. This rate will be reduced to NIS 0.22 per minute, in line with the reduction in termination tariffs for incoming domestic calls, effective March 1, 2008 (adjusted to conform to changes in the CPI).

Competition

There are currently four mobile telephone network operators in Israel: Partner, Cellcom, Pelephone and MIRS. The major beneficial shareholder of Cellcom is IDB . Cellcom operates nationwide mobile telephone networks based on GSM 1800 MHz, EDGE and D-AMPS, technologies. Cellcom is expected to launch is UMTS service in 2006. For more information, see Item 3D. Risk Factors Competition from existing competitors may require us to increase our subscriber acquisition costs and customer retention costs and increase our churn rate . Our second competitor is Pelephone. During 2004, Bezeq, the land-line operator in Israel, completed its acquisition of 100% of the shares of Pelephone. The major beneficial owner of Bezeq, following Bezeq s privatization during 2005, is an entity comprised of the S.C.G. Group (Haim Saban), the Apax Fund, and Arkin Communications (Mori Arkin). Pelephone currently operates nationwide mobile telephone networks in Israel using both the N-AMPS analog and the CDMA and CDMA1 xRTT, as well as the EV-DO technology. Our third competitor is MIRS, an Enhanced Specialized Mobile Radio, or trunking, network, which was granted a general license to operate as a mobile telephone operator on February 5, 2001. MIRS s major shareholder is Motorola Communications (Israel) Ltd.

According to our estimations, at December 31, 2005, Cellcom had approximately 2,603,000 customers, representing approximately 33% of the Israeli mobile telecommunications market; Pelephone had approximately 2,345,000 paying customers, representing approximately 30% of the Israeli mobile telecommunications market and MIRS had over 375,000 users, representing approximately 5%of the Israeli mobile telecommunications market. We compete with Cellcom, Pelephone and MIRS principally on the basis of telecommunications service quality, brand identity, variety of handsets, tariffs, value-added services and the quality of customer services.

In the sense that land-line telephony may, in some instances, be an alternative to cellular telephony, we also compete with Bezeq, which has been the only incumbent land-line operator in Israel until recently, when HOT launched a land-line telephone service on a very limited basis. In 2006, GlobeCall, Golden Lines and Cellcom were also granted special licenses for the provision of land-line telephony. Other telecommunications companies, including Barak and Netvision, have been reported to have applied for similar licenses. We requested such a license in early May 2006 as well.

The Palestine Telecommunication Co. Ltd., or Paltel, operates a GSM mobile telephone network under the name Jawwal in the Palestinian Authority administered areas of the West Bank and Gaza Strip, as well as a land-line network. Paltel s GSM network competes with our network in some border coverage overlap areas.

Information Technology

We depend upon a wide range of information technology systems to support network management, subscriber registration and billing, customer service and marketing and management functions. These systems execute critical tasks for our business, from rating and billing of calls, to monitoring our points of sale and antenna sites, to managing highly segmented marketing campaigns. As our subscriber base has grown, we have devoted significant resources to expanding and enhancing our information technology systems, adopting and implementing new systems, including Customer Relations Management, or CRM, systems, which have contributed to our customers satisfaction with our service, as well as updating our financial management and accounting system. We believe these systems have been an important factor in our achievements since our commercial launch.

While many of our systems have been developed by third-party vendors, all of them have been modified and refined to suit our particular needs. In certain instances, we have developed critical information technology systems internally to meet our specific requirements. For example, significant segments of our CRM and business information infrastructure were developed internally and were designed to integrate our customer service outreach with our overall sales and marketing effort. In other cases, conversely, we have outsourced responsibility for certain systems to third parties. We have completed upgrading our systems to support data packet switching services for 2.5 and third generation. Our Vantive CRM system is becoming obsolete and we contracted with IBM to implement a new CRM system based upon Seibel software.

Intellectual Property

We are the registered owners of the trademark Partner in Israel with respect to telecommunications-related devices and services as well as additional trademarks. We have also registered several internet Web domain names, including, among others: www.partner.co.il, www.orange.co.il and www.partnergsm.co.il.

We have entered into a brand license agreement with Orange International Developments Limited, a subsidiary of Orange plc. Under this agreement, Orange International appointed us as a permitted user of its trademarks in Israel. Under this license agreement, we have the exclusive right to use the Orange Brand in advertising and promotional materials in Israel. The term of the brand license began on July 1, 1998. The trademark license is royalty-free for the first 15 years of its term. In 2012, the parties are to discuss the royalties to be paid for a five-year term beginning July 1, 2013. In 2017, the parties are to again consider the royalties to be paid for an additional five-year term beginning July 1, 2018. Under this license agreement, we are required to comply with the Orange Brand guidelines established by Orange International. We have the right to use the Orange Brand as long as we are able and legally eligible under the laws of Israel to offer telecommunications services to the public in Israel. However, the license agreement may be terminated by mutual agreement, or at our discretion, or by Orange International if a court determines that we have materially misused the brand and we continue to materially misuse the brand after such determination of material misuse.

We have also entered into a brand support/technology transfer agreement with Orange Personal Communications Services Limited. Under this agreement, Orange Personal will provide us with information and expertise to support the Orange Brand in Israel at an agreed cost. See Item 3D. Risk Factors Our marketing strategy is based upon the international Orange Brand. If our license agreement terminates or is revoked, we will lose one of our main competitive strengths.

In addition, we are a full member of the GSM Association. In conjunction with the promotion and operation of our GSM network, we have the right to use their relevant intellectual property, such as the GSM trademark and logo, security algorithms, roaming agreement templates, and billing transfer information file formats. We are eligible to remain a member of the GSM Association for as long as we are licensed to provide GSM service.

Regulation

Overview

We operate within Israel primarily under the Communications Law (Telecommunications and Broadcasting), 1982 (the Telecommunications Law), the Wireless Telegraphy Ordinance (New Version), 1972 (the Wireless Telegraphy Ordinance), the regulations promulgated by the Ministry of Communications and our license. The Ministry of Communications issues the licenses which grant the right to establish and operate mobile telephone service in Israel, and sets the terms by which such mobile telephone service is provided. The regulatory framework under which we operate consists also of the Planning and Building Law, 1965, the Consumer Protection Law, 1981, and the Non-Ionizing Radiation Law, 2006. Additional areas of Israeli law may be relevant to our operations, including antitrust law, specifically the Restrictive Trade Practices Law, 1988, the Class Actions Law, 2006, and administrative law. The Israeli telecommunications market is in a state of transition, moving to a more liberalized environment in which various markets, such as the mobile, international services, and domestic markets and infrastructure, are gradually being opened to competition and in which government-owned monopolies are being privatized, such as was the case with Bezeq, whose privatization was completed this past year. As a result, there is a possibility that changes may take place in the regulatory framework described below.

Telecommunications Law

The principal law governing telecommunications in Israel is the Telecommunications Law and related regulations. The Telecommunications Law prohibits any person, other than the State of Israel, from providing public telecommunications services without a license issued by the Ministry of Communications.

General licenses, which relate to telecommunications activities over a public network or for the granting of nationwide services or international telecommunications services, have been awarded to Bezeq, and to HOT, to the four mobile telephone operators, Pelephone, Cellcom, Partner and MIRS, and to the six international operators, Barak, Bezeq International, Golden Lines, Netvision, Internet Gold and Exfone. In addition, the Ministry of Communications may issue additional mobile telephone operator and other licenses in the future.

In 2003, the Ministry of Communications decided to open the international call market to new competitors. However, the Ministry notified that it will not allow mobile operators to enter the international call market, at this stage.

On November 30, 2004, following a hearing process, the Ministry of Communications published a preliminary policy on Voice over Broadband, or VoB, services. The policy, among other things, allows licensed third parties (VoB operators) to use the access infrastructure of Bezeq and of HOT, to provide VoB services to customers, charging customers directly, with no need to pay to the access owner any usage fees. The policy indicates that usage of cellular operators infrastructure will be discussed and decided at a later date. Due to strong reactions from Bezeq and from HOT, the Ministry of Communications re-opened the hearing process on December 29, 2004, and responses were required to be submitted by January 30, 2005. However, due to the resignation of the Minister of Communications, the hearings have not yet proceeded.

On June 21, 2004, the Ministry of Communications published a draft license form, for potential providers willing to commit to license terms and be awarded a license to provide domestic land-line (wireline and wireless) services to customers, competing with Bezeq and HOT, on a non-universal service basis. Services provided under such license must be precisely defined by the provider, must be provided to customers in a region, or regions, defined by the provider and must be provided to a defined type of customer. Under the terms of such license, the provider must demonstrate aggregate revenues of no less than NIS 50 million within 3 years from the launching of the services. The license term is 20 years. We and various companies, including Golden Lines, Cellcom and Globecall, have requested this license. Golden Lines and Cellcom have already been granted this license.

The Ministry of Communications has the authority to amend the terms of any license. The grounds to be considered in connection with such an amendment are government telecommunications policy, public interest, the suitability of the licensee to perform the relevant services, the promotion of competition in the telecommunications market, the level of service and changes in technology. The Ministry of Communications may also make the award of certain benefits, such as new spectrum, conditional upon the licensee s consent to a license amendment. The Ministry of Communications also has the authority to revoke, limit or suspend a license at the request of the licensee or when the licensee is in breach of a fundamental condition of the license, when the licensee is not granting services under the license or is not granting services at the appropriate grade of service or when the licensee has been declared bankrupt or an order of liquidation has been issued with respect to the licensee. Public interest may also be grounds for the rescission or suspension of a license.

The Ministry of Communications, with the consent of the Minister of Finance, may also promulgate regulations to determine interconnect tariffs, or formulae for calculating such tariffs. Moreover, the Ministry of Communications may, if interconnecting parties fail to agree on tariffs, or if regulations have not been promulgated, set the interconnect tariff based on cost plus a reasonable profit, or based on each of the interconnecting networks bearing its own costs.

The Ministry of Communications has promulgated regulations that, coupled with a change effected in the mobile telephone operators licenses, impose a uniform call and SMS termination tariff. In November 2004, the Ministry of Communications announced regulatory changes significantly reducing call termination tariffs and SMS termination tariffs, effective March 1, 2005, with additional reductions mandated for the coming years. In addition, the Ministry of Communications further announced that billing units will be reduced from the present intervals of up to 12 seconds to 1 second, effective December 31, 2008. Furthermore, the Ministry of Communications also indicated that it intends to start implementing a process to bring about unification of rates for calls terminating both on and off an operator s network, and disallow charging the customer with a separate interconnect tariffs. Preliminary hearings with the cellular operators in Israel on this matter commenced in August 2005, and the Ministry of Communications has yet to publish a decision. The Telecommunications Law also includes certain provisions which may be applied by the Ministry of Communications to general licensees, including rights of way which may be accorded to general licensees to facilitate the building of telecommunications networks or systems and a partial immunity against civil liability which may be granted to a general licensee, exempting the licensee, *inter alia*, from tort liability with the exception of direct damage caused by the suspension of a telecommunications service and damage stemming from intentional or grossly negligent acts or omissions of the licensee. The Ministry of Communications has applied the partial immunity provisions to us, including immunity in the event that we cause a mistake or change in a telecommunication message, unless resulting from our intentional act or gross negligence.

The Ministry of Communications is evaluating the cost of roaming and may introduce new regulations that would limit fees charged by Israeli cellular companies for calls made by foreign network operators customers while in Israel using our network as well for calls made by our own customers using their handsets abroad. Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.

Royalties. Pursuant to the Telecommunication (Royalties) Regulations, 2001, we must pay royalties to the State of Israel every quarter based on our chargeable revenues, as defined in the regulation, from mobile telephone services (including, among other, airtime, monthly subscription fees, roaming services and non-recurring), on a cumulative basis, excluding value-added tax. Revenues for purposes of royalty calculation also exclude revenues transferred to other telecommunications license holders, bad debts, payments for roaming services to foreign mobile telephone operators and certain other revenues. The regulation provided a rate of 4% in 2003 and a rate of 3.5% in 2004 and 2005. In November 2004, the Ministry of Communications announced that from January 2006 the rate of royalties payments will be reduced annually by 0.5% to a level of 1%.

New Numbering Plan. The Ministry of Communications instructed all mobile network operators to implement as of April 20, 2004, a new national numbering plan, which gives each mobile operator a single prefix and adds a new digit to the beginning of each subscriber s current number. We have implemented the plan successfully, providing us with a range of eight million numbers for our customers.

Number Portability. On March 29, 2005, amendment to the Telecommunications Law requires the Minister of Communications to put into place a mobile number portability plan and, separately, a fixed number portability plan by September 1, 2006 (a three-month extension may be granted under certain circumstances), with the technological capacity to effect such implementation to be established by the companies by April 30, 2006, and coordination efforts with the other mobile telephone operators to be put in place by July 31, 2006. The number portability plan would permit mobile network subscribers in Israel to change operators without having to change their telephone numbers. Because this will eliminate one of the major barriers that we believe currently prevents subscribers from changing network operators, we expect that this will increase competition in our industry and churn rates and may increase subscriber acquisition and retention costs. Partner is a member of a 12-operator forum (including land-line, cellular, and international call operators) involved in a program plan to implement number portability. As of December 31, 2005, the head of the forum had notified the General Manager of the Ministry of Communications as well as the Minister of Finance that the operators will not be able to implement the plan by September 1, 2006, as scheduled, and that a program delay is requested. If we do not receive such an extension, we will not meet the statutory deadline, and we may be exposed to legal claims and financial sanctions that may have an adverse financial impact on us. The forum has submitted to the Antitrust Commissioner a formal request to allow the forum members to establish a central clearinghouse, owned by the operators, for administrative purposes related to number portability.

Fair Competition and Antitrust Law

Provisions protecting Partner from anti-competitive practices can be found in our license and in the licenses of the other telecommunications operators, in the various telecommunications regulations and in the Restrictive Trade Practices Law. Our license emphasizes the principle of granting users equal access to the systems of each of the operators upon equitable terms. The Telecommunications Law also provides certain protection against disruption of service by Bezeq, whose interconnection and transmission services are necessary in order for us to be able to provide certain services.

The Restrictive Trade Practices Law is the principal statute concerning restrictive practices, mergers and monopolies. This law prohibits a monopoly from abusing its market position in a manner that might reduce competition in the market or negatively affect the public. The law empowers the Commissioner of Restrictive Trade Practices to instruct a monopoly abusing its market power to perform certain acts or to refrain from certain acts in order to prevent the abuse. Bezeq has been declared a monopoly in certain markets, a ruling it is challenging. For more information see Item 3D. Risk Factors We operate in a highly regulated telecommunications market which limits our flexibility to manage our business. In particular, the regulator s decisions may materially adversely affect our results of operations .

Furthermore, in recent statements, the Israeli Commissioner of Restrictive Trade Practices has expressed his view that the mobile telephone industry in Israel operates as an oligopoly and that the Israeli government should intervene to regulate prices In part, the Commissioner based his statements on the increase in prices by the mobile telephone operators as a result of the Ministry of Communications decision to lower call termination tariffs. The chairman of the Knesset s Economic Committee announced that the committee would act to declare the mobile telephone operators as an oligopoly. Such a finding could result in increased regulatory intervention (including with regard to tariffs and tariffing practices), the application of certain limitations on our conduct and increased litigation.

Our License

On April 7, 1998, the Ministry of Communications granted to us a general license to establish and operate a mobile telephone network in Israel for which we paid a license fee and associated costs totaling approximately NIS 1,571 million, including an amount of approximately NIS 12 million as a license fee adjustment to reflect changes in the Israeli CPI from the time we submitted a bid for our license until the time our license was granted by the Ministry of Communications. We paid this additional fee under protest and requested a refund of the fee from the Ministry of Communications. As a result of the rejection of our request by the Ministry of Communications, we filed a suit in the Jerusalem District court. The suit is pending.

In the December 2001 spectrum auction in Israel, we were awarded additional spectrum (GSM (1800 MHz) spectrum and UMTS third generation (1900 MHz and 2100 MHz) spectrum). Following the award of this spectrum, the Minister of Communications amended and extended the license through 2022.

The cost of the license fees is NIS 180 million for the GSM 1800 spectrum, payable in two installments and NIS 220 million for the UMTS third generation spectrum, payable in six installments. We have one installment left on the UMTS third generation spectrum in the amount of NIS 22 million plus interest.

Under the terms of the amended license, we have provided a $10 million guarantee to the State of Israel to secure the Company s adherence to the terms of the license. For more information, see Item 5B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

On February 18, 2004, the Minister of Communications appointed a tender committee for allocating additional spectrum bands to existing and new mobile network operators. The committee was responsible for the process of holding a tender in which the Ministry of Communications would extend the licenses of the existing mobile network operators in order to enable them to offer their services in the additional spectrum bands that were about to be offered and allocated in the tender. In addition, the tender included the possibility of granting a general license to a new mobile network operator. Under the tender, the Ministry of Communications offered GSM 1800 MHz bands and third generation UMTS bands. Cellcom, one of our competitors, was the sole operator to buy additional bands in the GSM 1800 MHz spectrum. Furthermore, following a possible rearrangement of spectrum in the 900 MHz band, an additional 900 MHz spectrum may be offered to operators in the future.

In March, 2004 and December, 2004, our license was amended to allow for adult voice services through all cellular media including voice, picture, chat and dating services. The access to adult voice services is through a domestic dialing code by a plan set by the Ministry of Communications and a service number that we allocate to the provider of the adult voice services. Access to the adult voice services is automatically barred as a default for all our subscribers unless they specifically request the service and verify that they are over 18 years of age. This amendment has been applied to all cellular operators, to Bezeq and recently to the international operators. The Ministry of Communications will hold the operators and not the content providers liable and accountable for any infractions of this amendment. An additional amendment in March 2006 extended the restricted access for adult voice services described above to 3G technologies as well, including non-voice and internet services. This additional amendment, which came into effect March 29, 2006, imposes, *inter alia*, restrictions not only on access to adult-content internet sites using our cellular technologies, but also access via our internet portal to internet search engines, such as Google , that could potentially facilitate a search for such adult-content internet sites. We have filed a petition with the Israeli Supreme Court of Israel challenging the legality of the restrictions on access to internet search engines on the grounds that such restrictions infringe on basic freedoms of speech and our freedom to conduct our business, and that such restrictions unfairly discriminate against our provision of internet services as compared to non-cellular internet service providers who do not face similar restrictions. The petition is currently pending in the Israel Supreme Court.

On March 9, 2005, our general license was further amended. The principal elements of this amendment are as follows:

Our founding shareholders and their approved substitutes must hold, in the aggregate, at least 26% of each of our means of control. Furthermore, the maintenance of at least 26% of our means of control by our founding shareholders and their approved substitutes allows Partner to be protected from a license breach that results from a transfer of shares for which the authorization of the Ministry of Communications was required, but not obtained.

Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued share capital and of each of our means of control. Israeli entities are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Israeli Prime Minister or Minister of Communications.

At least 10% of our board of directors must be appointed by Israeli entities, as defined above, among our founding shareholders or their approved substitutes, provided that if the board is comprised of up to 14 members, only one such director must be so appointed, and if the board of directors is comprised of between 15 and 24 members, only two such directors must be so appointed.

A new board committee shall be formed to deal with security matters. Only directors with the required clearance and those deemed appropriate by Israel s General Security Service may be members of this committee.

The Minister of Communications shall be entitled to appoint an observer to the board of directors and its committees, subject to certain qualifications and confidentiality undertakings.

This amendment became effective on April 14, 2005 upon our notice to the Ministry of Communications that we have met the requirements set out in the license amendment.

Term. Our license authorizes us on a non-exclusive basis to establish and operate a mobile telephone network in Israel. A mobile telephone network is a wireless telephone network through which mobile telephone service is provided to the public. Our license allocates to us specified frequencies and telephone numbers. Our license was originally valid for a period of ten years (until April 2008), but has been extended until 2022.

The license may be extended for an additional six-year period upon our request to the Ministry of Communications, and a confirmation from the Ministry of Communications that we have met the following performance requirements:

observing the provisions of the Telecommunications Law, the Wireless Telegraphy Ordinance, the regulations and the provisions of our license;

acting to continuously improve our mobile telephone services, their scope, availability, quality and technology, and that there has been no act or omission by us harming or limiting competition in the mobile telephone sector;

having the ability to continue to provide mobile telephone services of a high standard and to implement the required investments in the technological updating of our system in order to improve the scope of such services, as well as their availability and quality; and

using the spectrum allocated to us efficiently, compared to alternative applications.

At the end of this additional six-year period, we may request renewal of our license for successive six-year periods thereafter, subject to regulatory approval.

Contracting with Customers. Pursuant to our license, our standard agreement with customers must receive the Ministry of Communications approval. We have submitted our standard agreement to the Ministry of Communications for approval pursuant to our license. To date, we have not received any comments from the Ministry of Communications regarding this agreement.

Tariffs. Our license requires us to submit to the Ministry of Communications our tariffs (and any changes in our tariffs) before they enter into effect. Our license allows us to set and change our tariffs for outgoing calls and any other service without approval of the Ministry of Communications. However, the Ministry of Communications may intervene in our tariffs if it finds that our tariffs unreasonably harm consumers or competition.

In October 2005, the Ministry of Communications announced its plans to investigate the possibility of requiring cellular operators to permit customers to terminate a call without charge if the call went directly to voicemail rather than reach the intended party, or to limit charges for the initial seconds of such calls. On May 2007, the Ministry of Communications proposed an amendment to our general license under which calls that are to go directly to voicemail would first trigger a message that would notify the caller that his call is about to go directly to voicemail and allow the caller to opt out to going to voicemail and avoid being charged for such call. The mobile telephone operators, including Partner, have been requested by the Ministry of Communications to submit their respective positions on such proposal. Such regulation may adversely affect our financial results.

Payments. Our license specifies the payments we may charge our subscribers. These include one-time installation fees, fixed monthly payments, airtime fees, payments for the use of other telecommunication systems, payments for handset maintenance and payments for additional services. In some of our tariff plans we have chosen to charge only for airtime and use of services. See Item 4B. Information on the Company Business Overview Services and Products Tariff Plans.

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Interconnection. Like the licenses of Pelephone, Cellcom and MIRS, our license requires that we interconnect our mobile telephone network to other telecommunications networks operating in Israel, including that of Bezeq, the other mobile telephone operators and the international operators.

Conversely, Partner must allow other network operators to interconnect to its network. See Item 4B. Information on the Company Business Overview Interconnection.

Service Approval. The Ministry of Communications has the authority to require us to submit for approval details of any of our services (including details concerning tariffs). In addition, we are required to inform the Ministry of Communications 30 days prior to the activation of any service on a specified list of services.

Access to Infrastructure. The Ministry of Communications has the power to require us, like the other telephone operators in Israel, to offer access to our network infrastructure to other operators. We may also be required to permit other operators to provide value-added services using our network.

Universal Service. We are required to provide any third generation service with the same coverage as our existing network within 24 months from the commercial launch of each such service.

Territory of License. Our license authorizes us to provide mobile telephone services within the State of Israel. In May 2000, we were also granted a license from the Israeli Civil Administration, which is responsible for administering the territories of the West Bank and Gaza that are not under the administration of the Palestine Authority.

License Conditions. Our license imposes many conditions on our conduct. We must at all times be a company registered in Israel. Our license may not be transferred, mortgaged or attached without the prior approval of the Ministry of Communications. We may not sell, lease or mortgage any of the assets which serve for the implementation of our license without the prior approval of the Ministry of Communications, other than in favor of a banking corporation which is legally active in Israel, and in accordance with the conditions of our license.

Our license provides that no direct or indirect control of Partner may be acquired, at one time or through a series of transactions, and no means of control may be transferred in a manner which results in a transfer of control, without the consent of the Ministry of Communications. Furthermore, no direct or indirect holding of 10% or more of any means of control may be transferred or acquired at one time or through a series of transactions, without the consent of the Ministry of Communications. In addition, no shareholder of Partner may permit a lien to be placed on shares of Partner if the foreclosure on such lien would cause a change in the ownership of 10% or more of any of Partner s means of control unless such foreclosure is made subject to the consent of the Ministry of Communications. For purposes of our license, means of control means any of:

voting rights in Partner;

the right to appoint a director or managing director of Partner;

the right to participate in Partner's profits; or

the right to share in Partner's remaining assets after payment of debts when Partner is wound up.

Each of our ordinary shares and ADSs is considered a means of control in Partner.

In addition, Partner, any entity in which Partner is an Interested Party, as defined below, an Office Holder, as defined below, in Partner or an Interested Party in Partner or an Office Holder in an Interested Party in Partner may not be a party to any agreement, arrangement or understanding which may reduce or harm competition in the area of mobile telephone services or any other telecommunications services.

In connection with our initial public offering, our license was amended to provide that our entering into an underwriting agreement for the offering and sale of shares to the public, listing the shares for trading, and depositing shares with the depositary or custodian will not be considered a transfer of any means of control, as defined below. Pursuant to the amendment, if the ADSs (or other traded means of control, that is, means of control which have been listed for trade or offered through a prospectus and are held by the public) are transferred or acquired in breach of the restrictions imposed by the license with respect to transfer or acquisition of 10% or more of any means of control, we must notify the Ministry of Communications and request the Minister s consent within 21 days of learning of the breach. In addition, should a shareholder, other than a founding shareholder, breach these ownership restrictions, or provisions regarding acquisition of control or cross-ownership or cross-control with other mobile telephone operators or shareholdings or agreements which may reduce or harm competition, its shareholdings will be converted into dormant shares, as long as the Minister s consent is required but not obtained, with no rights other than the right to receive dividends and other distributions to shareholders, and to participate in rights offerings.

The dormant shares must be registered as dormant shares in our share registry. Any shareholder seeking to vote at a general meeting of our shareholders must notify us prior to the vote, or, if the vote is by deed of vote, must so indicate on the deed of vote, whether or not the shareholder s holdings in Partner or the shareholder s vote requires the consent of the Ministry of Communications due to the restrictions on transfer or acquisition of means of control, or provisions regarding cross-ownership or cross-control with other mobile telephone operators or shareholders. If the shareholder does not provide such certification, his instructions shall be invalid and his vote not counted.

The existence of shareholdings which breach the restrictions of our license in a manner which could cause them to be converted into dormant shares and may otherwise provide grounds for the revocation of our license will not serve in and of themselves as the basis for the revocation of our license so long as:

- the founding shareholders or their approved substitutes of Partner continue to hold in the aggregate at least 26% of the means of control of Partner;
- our Articles of Association include the provisions described in this paragraph;
- we act in accordance with such provisions;
- our Articles of Association provide that an ordinary majority of the voting power at the general meeting of Partner is entitled to appoint all the directors of Partner.

The amendment of our license providing for the dormant share mechanism does not apply to our founding shareholders.

The provisions contained in the amendment to our license are also contained in our Articles of Association. In addition, our Articles of Association contain similar provisions in the event the holdings of shares by a shareholder breaches the Israeli and foreign mobile radio telephone operator ownership limits contained in our license.

Revoking, limiting or altering our license. Our license contains several qualifications that we are required to meet. These conditions are designed primarily to ensure that we maintain at least a specified minimum connection to Israel and that we benefit from the experience of a foreign mobile radio telephone operator. Other eligibility requirements address potential conflicts of interest and cross-ownership with other Israeli telecommunications operators. The major eligibility requirements are set forth below. A failure to meet these eligibility requirements may lead the Ministry of Communications to revoke, limit or alter our license, after we have been given an opportunity and have failed to remedy it.

- Founding shareholders or their approved substitutes must hold at least 26% of the means of control of Partner.
- Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued share capital and of each of our means of control.
- A Foreign Mobile Radio and Telephone operator (as defined below) (or a controlling corporation thereof) must hold directly or indirectly at least 25% of the means of control of Partner.
- The majority of our directors, and our general manager, must be citizens and residents of Israel.
- Neither the general manager of Partner nor a director of Partner may continue to serve in office if he has been convicted of certain legal offenses.
- No trust fund, insurance company, investment company or pension fund that is an Interested Party in Partner may: (a) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator without having obtained a permit to do so from the Ministry of Communications, or (b) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator in accordance with a permit from the Minister, and in addition have a representative or appointee who is an Office Holder in a competing mobile radio telephone operator, unless it has been legally required to do so, or (c) hold, either directly or indirectly, more than 10% of any means of control in a competing mobile radio telephone operator, even if it received a permit to hold up to 10% of such means of control.
- No trust fund, insurance company, investment company or a pension fund that is an Interested Party in a competing mobile radio telephone operator may: (a) hold, either directly or indirectly, more than 5% of any means of control in Partner, without having obtained a permit to do so from the Ministry of Communications; or (b) hold, directly or indirectly, more than 5% of any means of control in Partner in accordance with a permit from the Ministry of Communications, and in addition have a representative or appointee who is an Office Holder in Partner, unless it has been legally required to do so; or (c) hold, either directly or indirectly, more than 10% of any means of control in Partner, even if it received a permit to hold up to 10% of such means of control.
- Partner, an Office Holder or Interested Party in Partner, or an Office Holder in an Interested Party in Partner does not control a competing mobile radio telephone operator, is not controlled by a competing mobile radio telephone operator, by an Office Holder or an Interested Party in a competing mobile radio telephone operator, by an Office Holder in an Interested Party in a competing mobile radio telephone operator, or by a person or corporation that controls a competing mobile radio telephone operator.

Our license may also be revoked, limited or altered by the Ministry of Communications if we have failed to uphold our obligations under the Telecommunications Law, the Wireless Telegraphy Ordinance or the regulations, or have committed a substantial breach of the license conditions. Examples of the principal undertakings identified in our license in this connection are:

We have illegally ceased, limited or delayed any one of our services;

Any means of control in Partner or control of Partner has been transferred in contravention of our license;

We fail to invest the required amounts in the establishment and operation of the mobile radio telephone system in accordance with our undertakings to the Ministry of Communications;

We have harmed or limited competition in the area of mobile radio telephone services;

A receiver or temporary liquidator is appointed for us, an order is issued for our winding up or we have decided to voluntarily wind up; or

Partner, an Office Holder in Partner or an Interested Party in Partner or an Office Holder in an Interested Party of Partner is an Interested Party in a competing mobile radio telephone operator or is an Office Holder in a competing mobile radio telephone operator or in an interested party in a competing mobile radio telephone operator without first obtaining a permit from the Ministry of Communications to do so or has not fulfilled one of the conditions included in such permit. See Item 4B. Information on the Company Business Overview Regulation Our Permit Regarding Cross Ownership.

In addition, our amended license, like the licenses of our competitors, provides that if we participate in a future tender for a mobile telecommunications license, we may be required by the terms of a new tender, if we win such tender, to transfer our network to another operator according to terms which the Minister of Communications may decide upon and to cease providing mobile telephony services.

Change in license conditions. Under our license, the Ministry of Communications may change, add to, or remove conditions of our license if certain conditions exist, including:

A change has occurred in the suitability of Partner to implement the actions and services that are the subject of our license.

A change in our license is required in order to ensure effective and fair competition in the telecommunications sector.

A change in our license is required in order to ensure the standards of availability and grade of service required of Partner.

A change in telecommunications technology justifies a modification of our license.

A change in the electromagnetic spectrum needs justifies, in the opinion of the Ministry of Communications, changes in our license.

Considerations of public interest justify modifying our license.

A change in government policy in the telecommunications sector justifies a modification of our license.

A change in our license is required due to its breach by Partner.

During a period of an emergency, control of Partner s mobile radio telephone system may be assumed by any lawfully authorized person for the security of the State of Israel to ensure the provisions of necessary service to the public, and some of the spectrum granted to us may be withdrawn. In addition, our license requires us to supply certain services to the Israeli defense and security forces. Furthermore, certain of our senior officers are required to obtain security clearance from Israeli authorities.

For the purposes of this discussion, the following definitions apply:

Office Holder means a director, manager, company secretary or any other senior officer that is directly subordinate to the general manager.

Control means the ability to, directly or indirectly, direct the activity of a corporation, either alone or jointly with others, whether derived from the governing documents of the corporation, from an agreement, oral or written, from holding any of the means of control in the corporation or in another corporation, or which derives from any other source, and excluding the ability derived solely from holding the office of director or any other office in the corporation. Any person controlling a subsidiary or a corporation held directly by him will be deemed to control any corporation controlled by such subsidiary or by such controlled corporation. It is presumed that a person or corporation controls a corporation if one of the following conditions exist: (1) such person holds, either directly or indirectly, fifty percent (50%) or more of any means of control in the corporation; (2) such person holds, either directly or indirectly, a percentage of any means of control in the corporation which is the largest part in relation to the holdings of the other Interested Parties in the corporation; or (3) such person has the ability to prevent the taking of business decisions in the corporation, with the exception of decisions in the matters of sale or liquidation of most businesses of the corporation, or fundamental changes of these businesses.

Controlling Corporation means a company that has control, as defined above, of a foreign mobile radio telephone operator.

Foreign Mobile Radio Telephone Operator means an operator of a mobile telephone system abroad, through which mobile telephone services are provided to at least 500,000 subscribers.

Interested Party means a person who either directly or indirectly holds 5% or more of any type of means of control, including holding as an agent.

Our Permit Regarding Cross Ownership

Our license generally prohibits cross-control or cross-ownership among competing mobile telephone operators without a permit from the Ministry of Communications. In particular, Partner, an Office Holder or an Interested Party in Partner, as well as an Office Holder in an Interested Party in Partner may not control or hold, directly or indirectly, 5% or more of any means of control of a competing mobile radio telephone operator. Our license also prohibits any competing mobile radio telephone operator or an Office Holder or an Interested Party in a competing mobile radio telephone operator, or an Office Holder in an Interested Party in a competing mobile radio telephone operator or a person or corporation that controls a competing mobile radio telephone operator from either controlling, or being an Interested Party in us.

However, our license, as amended on April 14, 2002 also provides that the Ministry of Communications may permit an Interested Party in Partner to hold, either directly or indirectly, 5% or more in any of the means of control of a competing mobile radio telephone operator if the Ministry of Communications is satisfied that competition will not be harmed, and on the condition that the Interested Party is an Interested Party in Partner only by virtue of a special calculation described in the license and relating to attributed holdings of shareholders deemed to be in control of a corporation.

Discount Investment Company Ltd., an indirect shareholder of Elbit, one of our founding Israeli shareholders, was deemed to be an Interested Party in both Partner and Cellcom by virtue of the special calculation described above. Accordingly, we applied for and received a permit from the Ministry of Communications which authorized Discount s indirect ownership of equity in both Partner and Cellcom. Our permit was also amended on April 14, 2002 and on June 2, 2002. Our permit contains certain guidelines which apply to Discount and the related companies PEC Israel Economic Corporation, Elron Electronic Industries Ltd., the parent of Elbit, Elbit and IDB Development Company Ltd., the parent of Discount, and persons who control any one of them (collectively, the IDB Group). Our permit establishes limits on the holdings of the IDB Group in the equity of Cellcom and Partner. Changes in these holdings require a permit from the Ministry of Communications, and may require Elbit to significantly reduce its holdings in Partner. In addition, our permit limits the number of directors of Partner that may be appointed by the IDB Group. Our permit also limits the exchange of information regarding Partner within the IDB Group and its subsidiaries, limits the involvement of the three directors and office holders of Discount Investment Company Ltd. who are also directors of Cellcom in matters relating to Partner, and prohibits these directors from certain activities within the IDB Group which would provide them with access to information about Partner. On April 20, 2005, we purchased a material portion of the Partner shares owned by Elbit and as a result, Elbilt s holdings in Partner were reduced to less than 5%. See Item 7B. Related Party Transactions Repurchase of Shares from Founding Israeli Shareholders.

ISP License

In March 2001, we received a special license issued by the Ministry of Communications, allowing us through our own facilities to provide internet access to both mobile and land-line network customers. The license is valid until March 2008.

Other Licenses

The Ministry of Communications has granted us a trade license pursuant to the Wireless Telegraphy Ordinance. This license regulates issues of servicing and trading in equipment, infrastructure and auxiliary equipment for our network.

We have also been granted a number of encryption licenses that permit us to deal with means of encryption, as provided in the aforementioned licenses, within the framework of providing mobile radio telephone services to the public.

On March 1, 2006, we submitted a request to the Ministry of Communications to obtain a national transmission license after we signed an agreement with MED I.C. 1 (1999) Ltd. to purchase the company s fiber-optic transmission business. On April 30, 2006 we requested, in conjunction with the aforementioned request, that the national transmission license previously granted to MED I.C. -1 be transferred to Partner.

In early May 2006 we applied for a special license for the provision of land-line telephony.

Antenna Site Permits

Permits of the Ministry of Environment

Pursuant to the Pharmacists (Radioactive Elements and Products) Regulations, 1980 (the Pharmacists Regulations) issued under the Pharmaceutics Ordinance, the Ministry of the Environment is empowered to grant erection permits and operation permits for our antennas. The granting of such permits is subject to the satisfaction of conditions to which we are subject under the Pharmacists Regulations. The application to the Ministry of Environment must include a discussion of the type of device, its impact on the environment both during ordinary operation and in maximum level of operation, and details of the possible dangers posed by the device and the manner in which these dangers may be prevented or neutralized. In addition, the application includes an engineer s sketch of the device and its related equipment.

The Ministry of the Environment has adopted the International Radiation Protection Agency s standard as a basis for the consents it gives for the erection and operation of our antennas. This standard is an international standard based upon a number of years of scientific study.

On January 1, 2006, the Non-Ionizing Radiation Law (5766-2006) was enacted, which defines the various powers of the Ministry of the Environment as they relate, *inter alia*, to the grant of permits for antenna sites and sets standards for permitted levels of non-ionizing radiation emissions and reporting procedures. Pursuant to such law, which will enter into effect on January 1, 2007, a request for an operating permit from the Ministry of Environment with respect to either new sites or existing sites would require a building permit for such site(s). If we will continue to face difficulties in obtaining building permits from the local planning and building committee, we may fail to obtain also operation permits from the Ministry of Environment. Operation of an antenna site without a permit from the Ministry of Environment may result in criminal and civil liability to us or to our officers and directors.

Local Building Permits

The Planning and Building Law requires that we receive a building permit for the construction of most of our antennas. The local committee or local licensing authority in each local authority is authorized to grant building permits, provided such permits are in accordance with National Building Plan No. 36 which came into effect on June 15, 2002. The local committee is made up of members of the local municipal council. The local committee is authorized to delegate certain of its powers to subcommittees on which senior members of the local authority may sit.

The local committee examines the manner in which an application for a building permit conforms to the plans applying to the parcel of land that is the subject of the application, and the extent to which the applicant meets the requirements set forth in the Planning and Building Law. The local committee is authorized to employ technical, vista, and aesthetic considerations in its decision-making process. The local committee may grant building permits that are conditioned upon the quality of the construction of the structure, the safety of flight over the structure, and the external appearance of the structure. Every structure located on a certain parcel of land must satisfy the requirements and definitions set forth in the building plan applicable to such parcel.

On January 3, 2006, the National Council for Planning and Building added a new requirement for obtaining a building permit for antenna sites: the submission of an undertaking to indemnify the local committee for claims relating to the depreciation of the surrounding property value as a result of the construction or existence of the antenna.

A decision by a local committee not to grant a building permit may be appealed to the District Appeals Committee. A person harmed by the ruling of the District Appeals Committee may have such ruling examined judicially by means of an administrative petition to the District Court sitting as an Administrative Affairs Tribunal.

National Building Plan No. 36

National Building Plan No. 36 which came into effect on June 15, 2002 regulates the growth of telecommunications infrastructure in Israel. Chapter A of National Building Plan No. 36 sets forth the licensing, view, flight safety and electromagnetic radiation requirements for the construction of mobile radio telephone infrastructure. National Building Plan No. 36 also adopts the radiation emission standards set by the International Radiation Protection Agency which were also previously adopted by the Ministry of the Environment. We believe that we currently comply with these standards.

Since National Building Plan 36 was approved, some planning committees have started to require that, as a precondition for issuing new permits for antenna sites, we submit an undertaking to indemnify the committee against claims for depreciation in the value of nearby properties as a result of issuing a permit to build, and the building of, antenna sites. To date, we have provided to local authorities 24 letters of undertaking to provide such indemnification for the benefit of such local authorities within 30 days from the enactment of a law or a final court decision requiring such indemnifications.

Under the Non-Ionizing Radiation Law, which imposes criminal sanctions for non-compliance with its dictates, the National Council for Planning and Building was granted the power to determine the level of indemnification for reduction of property value to be undertaken as a precondition for a cellular company to obtain a building permit for a new or existing antenna site. As a result, the National Council for Planning and Building has decided that until National Building Plan 36 is amended to reflect a different indemnification amount, cellular companies will be required to undertake to indemnify the building and planning committee for 100% of all losses resulting from claims against the committee. Thus, at present, in order to obtain a building permit for a new or existing antenna site, we must provide full indemnification for the reduction of property value.

We cannot predict whether the legal requirement to provide full indemnification will be adopted in the amended National Building Plan 36, nor can we predict when the National Building Plan 36 will be amended. These recent developments may have a material adverse effect on our financial condition and results of operations, as well as plans to expand and enhance network coverage. For more information, see Item 3D. Risk Factors In Connection with certain building permits, we may also be required to indemnify certain planning committees in respect of claims against them relating to the depreciation of property values or to alleged health damage that result from antenna sites, which may have a material adverse effect on our financial condition and results of operations .

Other Approvals

The construction of our antennas may be subject to the approval of the Civil Aviation Administration which is authorized to ensure that the construction of our antennas does not interfere with air traffic, depending on the height and location of such antennas. The approval of the Israeli Defense Forces is required in order to coordinate site frequencies so that our transmissions do not interfere with the communications of the Israel Defense Forces.

We, like other mobile telephone operators in Israel, provide repeaters, also known as bi-directional amplifiers, to subscribers seeking an interim solution to weak signal reception within specific indoor locations. In light of the lack of a clear policy of the local planning and building authorities, and in light of the practice of the other mobile telephone operators, we have not requested permits under the Planning and Building Law for the repeaters. However, we have received from the Ministry of Communications an approval to connect the repeaters to our communications network. We have also approached the Ministry of the Environment, asserting that no permits are necessary for the repeaters, based on the Ministry s previous advice that permits are not necessary for devices with comparable levels of emission called Fixed Cellular Terminals.

We have received approval from the Ministry of Communications for selling and distributing all of the handsets and other terminal equipment we sell. The Ministry of the Environment also has authority to regulate the sale of handsets in Israel, and under the new Non-Ionizing Radiation Law, certain types of devices, which are radiation sources, including cellular handsets, have been exempted from requiring an approval from the Ministry of Environment so long as the radiation level emitted during the use of such handsets does not exceed the radiation level permitted under the Non-Ionizing Radiation Law. Since June 15, 2002, we have been required to provide information to purchasers of handsets on the Specific Absorption Rate, or SAR, of the handsets as well as its compliance with certain standards pursuant to a regulation under the Consumer Protection Law. While, to the best of our knowledge, the handsets that we market comply with the applicable laws that relate to acceptable SAR levels, we rely on the SAR published by the manufacturer of these handsets and do not perform independent inspections of the SAR levels of these handsets.

In November 2005, a new procedure was adopted by the Ministry of Communications with regard to the importation, marketing, and approval for 2G and 2.5G handsets. Prior to the implementation of the new procedure, suppliers of 2G and 2.5G handsets in Israel were required to obtain an interim, non-binding approval of the handset type from the relevant mobile telephone operators before receiving final approval from the Ministry of Communications to supply such handsets in Israel to such operators. Under the new procedure, handsets that have already received the internationally recognized Global Certification Forum approval prior to their importation into Israel are now exempt from the requirement of receiving an interim, non-binding approval from the relevant mobile telephone operators in Israel. This could expose us to the risk that handsets not reviewed and approved by us may interfere with the operation of our network. The new procedures described above do not apply to 3G handsets, which still require mobile telephone operators to grant an interim, non-binding approval to the Ministry of Communications before the Ministry grants its final approval in all circumstances.

In addition, this procedure also called for repaired handsets to comply with all applicable standards required for obtaining handset type approval, including standards relating to the safety, electromagnetic levels, and SAR levels. Under a December 2005 amendment to this procedure, in the event that the SAR level is not measured after the repair of a handset, the repairing entity is required to notify the customer by means of a label affixed to the handset that the SAR may have been altered following the repair, in accordance with the provisions relating to the form of such label set forth in the procedure. At present, a consultant has been retained by the Ministry of Communications to formulate a recommendation regarding the appropriate manner to implement the procedure for repairing handsets. In the course of the consultant s work, he has met with mobile telephone operators, including Partner. We intend to comply with the decision of the Ministry of Communications on this matter once a decision is published.

Liberalization of Handset Market

The Ministry of Communication announced in October 2005 its plans to increase competition in the cellular handset market by opening the market to competitors. We are unable at this point to assess how the market liberalization in the handset market would affect us, although we believe that such competition will not have a material affect on our business.

4C. Organizational Structure

We currently have two active subsidiaries, Partner Future Communications 2000 Ltd., an Israeli corporation, and Partner Land-Line Communications Solutions LLP, an Israeli limited partnership (of which Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner), which are wholly-owned by us. We are an indirect subsidiary of Hutchison Telecom, which holds approximately 51.6% of our outstanding shares, as of March 31, 2006. Hutchison Telecom is a leading international provider of mobile and land-line telecommunications services with operations in nine markets.

4D. Property, Plants and Equipment

Headquarters

We lease our headquarter facilities in Rosh Ha-ayin, Israel, as follows:

(1) Main office at 8 Amal St. a building of 10,532 square meters plus 6,345 square meters mainly for parking. The lease agreement is for a 20 year period commencing on June 1998. We have an option to shorten the lease period by 3.5 to 8.5 years.

(2) Main office at 6 Amal St. a building of 9,172 square meters plus 14,877 square meters of parking and service areas. In 2003, we increased our lease to 18,151 square meters and 14,877 square meters for parking and service areas. In 2004, we increased our lease to 19,000 square meters plus 14,877 square meters for parking and service areas. The lease agreement is for a 16 year period commencing in November 2002. We have an option to shorten the lease period by 3.5 to 8.5 years.

(3) Main office at 10 Amal St. 2,468 square meters plus 500 square meters of parking and service areas. The lease agreement is for an initial period of 24 months commencing in December 2002. We have an option to continue the lease period for seven additional periods of 24 months each. The lease for the main office at 10 Amal St. renews automatically at the end of each term.

We lease a call center at 5 Kornas St. in Haifa a building of 2,525 square meters. The lease agreement is for a 5 year period commencing in November 2001. We have the option to extend the lease period for 6 years.

Network Sites

We lease most of the sites where our mobile telecommunications network equipment is installed throughout Israel. At December 31, 2005, we had 2,252 antenna sites (including micro-sites). The lease agreements relating to our cell sites are generally for periods of two to three years. We have the option to extend the lease periods up to ten years (including the original lease period).

The operation of most of these antenna sites requires building permits from local or regional zoning authorities, as well as a number of additional permits from governmental and regulatory authorities, and we have had difficulties in obtaining some of these permits. Difficulties obtaining required permits could continue and therefore affect our ability to maintain antenna sites. See Item 3. Key Information 3D. Risk Factors We have had difficulties obtaining some of the permits for which we have applied, and have not yet applied for other permits that are required for the erection of our antenna sites. These difficulties could continue and therefore affect our ability to erect or maintain antenna sites. This could have an adverse effect on the extent, quality and capacity of our network coverage and may result in criminal or civil liability to us or to our officers and directors.

Service Centers and Points of Sale

Lease agreements for our retail stores and service centers are for periods of two to five years. We have the option to extend the lease agreements for different periods of up to twenty additional years (including the original lease period). The average size of our retail stores and service center is approximately 230 square meters. See also Note 8a(2)(b) to our consolidated financial statements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following operating and financial review and prospects are based upon and should be read in conjunction with our financial statements and selected financial data, which appear elsewhere in this report. You should also read the risk factors appearing in this annual report for a discussion of a number of factors that affect and could affect our financial condition and results of operations.

Overview

We were formed in September 1997. We submitted our bid to the Ministry of Communications for our license on October 28, 1997. The Ministry of Communications awarded us our license on April 7, 1998, and we began full commercial operations to the general public in January 1999.

In December 2001 we were awarded additional spectrum: second generation (2G) band (1800 MHz) and third generation (3G) UMTS band (1900 MHz and 2100 MHz). We commercially launched our 3G network in December 2004. See Item 4A. Information on the Company History and Development of the Company for significant events since we commenced commercial operations and Item 5B. Liquidity and Capital Resources for information on the costs required to build and expand our network and services.

The attached table is a summary of selected financial and operating data for each of the years ended December 31, 2005, 2004, 2003, 2002 and 2001:

	2005	2004	2003	2002	2001
Revenues (NIS million)	5,123	5,141	4,468	4,055	3,249
Operating profit (NIS million)	903	1,019	855	533	103
Income (loss) before taxes (NIS million)	557	759	530	84	(307)
Net income (loss) (NIS million)	355	472	1,163	84	(303)
Capital expenditures, net (NIS million)	486	601	232	556	599
Cash flow provided by (used in) operating activities net of investment activities (NIS million)	460	599	655	(134)	(207)
Subscribers (thousands)	2,529	2,340	2,103	1,837	1,458
Annual churn rate (%)	13.6%	12.0%	13.6%	10.9%	5.8%
Average monthly usage per subscriber (in minutes)	294	286	277	280	318
Average monthly revenue per subscriber (NIS)	156	170	171	183	214
Average subscriber acquisition costs (NIS)	282	295	362	470	458

Revenues

Our principal source of revenues is from the sale of network services, primarily network airtime usage fees, and is denominated primarily in shekels. In 2005, as in each of 2004 and 2003, over 50% of network airtime usage fees were derived from outgoing calls, with the remainder generated from incoming calls, roaming and value-added services. We also derive revenues from sales of handsets, car kits, accessories and handset maintenance services to subscribers as well as other services. Network airtime usage fees are derived from subscribers originating calls on our network and payments received from other telecommunications network operators, both local and international, for delivering calls originating on their networks and terminating on our network. We recognize revenues from airtime usage and other services at the time we provide the service to the subscriber. We recognize revenues from handset sales, car kits and other equipment only upon delivery and the transfer of ownership to the subscriber.

Cost of Revenues

Our principal components of cost of revenues are:

- interconnect fees paid to the land-line and other telecommunication network operators in Israel and charges paid to foreign GSM network operators;
- handset and car-kit costs;
- depreciation of our network and amortization of our license;
- salaries and related expenses, including compensation related to employee stock option plans.
- leases;
- network maintenance;
- royalties paid to the Israeli Government under our license; and
- costs of replacing or repairing damaged handsets.

Selling and Marketing Expenses

Our principal components of selling and marketing expenses are:

- advertising and promotion;
- commissions to dealers; and

salaries and related expenses, including compensation related to employee stock option plans.

General and Administrative Expenses

Our principal components of general and administrative expenses are:

salaries and related expenses, including compensation related to employee stock option plans;

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professional fees and consultancy fees;

insurance;

depreciation and amortization; and

provision for bad debts.

Financial Expenses

Our principal components of financial expenses are:

interest on bank loans and notes;

net hedging costs on foreign currency exposure;

exchange rate and linkage differences; and

Key Business Indicators (Operating Data)

Our primary key business indicators are described below. These indicators are widely used in the cellular telephone service industry to evaluate performance:

number of subscribers;

average monthly revenue per subscriber (ARPU);

average monthly minutes of usage per subscriber (MOU);

churn rate; and

subscriber acquisition costs (SAC).

2005 Developments

We operate in a highly regulated telecommunications market. During 2005, reductions in interconnect tariffs resulted in lower revenues, adversely affecting our financial results. Additional reductions have already become effective March 1, 2006. To mitigate the effects of these reductions, we have implemented cost-cutting measures, including reducing distribution and advertising costs, implemented price increases and repackaged our tariff plans. We are not able to predict with certainty the effect of future regulatory changes, including the effect of the implementation of number portability, and how we will address these changes.

As part of our overall efforts to reduce costs, we raised approximately NIS 2 billion in a public offering in Israel and entered into a new $550 million bank credit facility in April 2005, which was reduced to $268 million as of December 31, 2005, and redeemed our 13% USD Notes due 2010.

On January 22, 2006, we signed an agreement with MED I.C. 1 (1999) Ltd., a transmission and hosting company, to purchase its fiber-optic cable infrastructure comprising of a network of approximately 900 kilometers of submerged and terrestrial transmission fiber for approximately $14.8 million, subject to certain adjustments, in order to enable us to reduce our transmission costs as well as to provide our business customers with bundled services of transmission of data and voice. Completion of the transaction is subject to the satisfaction of various closing conditions, including, approval by the Ministry of Communications. We believe that demand for 3G services will provide an important source of future mobile subscriber growth and usage in Israel. During 2005, we expanded our 3G population coverage from approximately 60% of Israeli population to approximately 92% of the Israeli population at a cost of approximately $50 million. In addition, the primary objective of our marketing strategy in 2005 was to increase our 3G subscriber base and 3G usage by our customers while marketing and developing our 3G services available to our customers. We intend to continue our efforts to increase our 3G subscriber base and 3G usage.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. We also evaluate our estimates, on an ongoing basis. We base our estimates on historical experience and on various other assumptions and information that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Please refer to Note 1 to our consolidated financial statements included in this annual report for a summary of all of our significant accounting policies.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

As described in Note 1j to our consolidated financial statements, we recognize service revenues as services are rendered, and revenues from sale of handsets and other equipment upon delivery. We recognize service revenues based upon minutes used, net of credits and adjustments for service discounts. Because our billing cycles use cut-off dates, which for the most part do not coincide with our reporting periods, we are required to make estimates for service revenues earned but not yet billed at the end of each reporting period. These estimates are based primarily upon historical data and trends. In certain cases, cellular handsets are sold to subscribers within the context of airtime packages, in order to divide the revenues into separate units of accounting, we are required to estimate the fair value of each deliverable. These estimates are based upon the price of each deliverable when it is sold on a standalone basis. The amount allocable to the delivered item (the handset) is limited to the amount that is not contingent upon the delivery of any additional services under the contract (airtime services).

Actual billing cycle results and related revenue may vary, depending on subscriber usage and rate plan mix, from the results estimated at the end of each period.

Long-Lived Assets

We have substantial investments in tangible and intangible long-lived assets, primarily our communications network, our license and spectrum. Changes in technology or changes in our intended use of these assets can cause the estimated period of use or the value of these assets to change. We amortize our communications network by the straight-line method, mainly over 6.7 years (15% per year). For instance, had the percentage of depreciation been decreased by 5%, our operating profit would increase by approximately NIS 141 million and had the percentage of depreciation increased by 5%, our operating profit would decrease by approximately NIS 124 million. We amortize our license by the straight-line method mainly over the utilization period of the license, which is based upon the license period. During 2002, our license was extended by 14 years to 2022. Consequently, the amortized balance of our license is amortized as of 2002 over the period ending in 2022. We review our communications network, license and spectrum for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable through undiscounted future cash flows. If necessary, we write down the assets to their estimated fair values. No write-downs of our long-lived assets have been recorded since incorporation.

Allowance for Doubtful Accounts

We maintain allowance for doubtful accounts for estimated losses resulting from the inability of our subscribers to make required payments. We base our allowance on the likelihood of recoverability of accounts receivable based on the aging of the balances, our historical write-off experience net of recoveries, changes in the credit worthiness of our customers, and collection trends. The allowance is periodically reviewed. The allowance charged to expenses is determined in respect of specific debts doubtful of collection, calculated as a specified percentage of the outstanding balance in each debt age group, with the percentage of the allowance increasing as the age of the debt increases. For example, a debt that is between 1 to 1.5 years overdue is reserved for at the rate of 78%. If we decreased our percentage of the allowance for all aging debts by 15%, our operating profit would increase by NIS 16 million. If we increased such percentage by 15%, our operating profit would decrease by NIS 11 million. The debt becomes fully reserved once it is at least 1.5 years overdue. Actual customer collections could differ from our estimates. For example, if the financial condition or our customers were to deteriorate, additional allowances may be required. Our bad debt expenses as a percentage of revenues were 0.5%, 0.4% and 0.6% for the years ended December 31, 2003, 2004 and 2005, respectively.

Results of Operations for the Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Revenues in 2005 were NIS 5,122.9 million (US$ 1,113.0 million), down 0.3% from NIS 5,140.7 million in 2004.

Revenues in 2005 from services were NIS 4,619.9 million (US$ 1,003.7 million), approximately equal to the revenues from services in 2004 of NIS 4,615.8 million. Compared with 2004, total network minutes in 2005 increased by 12.8%, offset by a 12.9% dilution in the average tariff per minute including incoming calls. The increase in total network minutes was driven primarily by an expanding subscriber base which grew by 8.1% from the end of 2004 to the end of 2005. The dilution in the average tariff per minute compared with 2004 was driven primarily by the reduction in interconnection tariffs which went into effect in March 2005, as well as increased competition and the increased weight of business subscribers in our customer base. The average business subscriber generates substantially more minutes of use than post-paid private and prepaid subscribers, whilst their average tariff per minute is materially lower.

Revenues in 2005 from equipment were NIS 503.0 million (US$ 109.3 million), a decrease of 4.2% from NIS 525.0 million in 2004. The decrease in 2005, compared with 2004, was driven by a decrease in the average revenue per sale.

Data and content revenues, including SMS messages, in 2005 were NIS 404.2 million (US$ 87.8 million), accounting for 7.9% of total revenues or 8.7% of service revenues, up from NIS 351.1 million, or 6.8% of total revenues, 7.6% of service revenues, in 2004, despite the reduction in SMS interconnection tariffs. The increase in 2005, compared with 2004, was driven by data and content non-SMS service revenues which increased by 34.5%. Revenues from SMS services in 2005 decreased by 4.0% compared with 2004, reflecting the reduction in SMS interconnect tariffs from March 2005, as mandated by the Ministry of Communications. In 2005, SMS messages accounted for approximately 42% of data and content revenues, compared with approximately 50% in 2004.

Cost of revenues in 2005 increased by 4.2% to NIS 3,766.4 million (US$ 818.2 million) from NIS 3,615.0 million in 2004.

Cost of revenues services in 2005 increased by 4.8% to NIS 3,022.5 million (US$ 656.6 million), from NIS 2,885.1 million in 2004. The increase was primarily driven by the increased depreciation and amortization of over NIS 100 million which was recorded following the launch of the 3G network towards the end of 2004 together with the additional network expenses associated with the 3G network.

Cost of revenues equipment in 2005 increased by 1.9% to NIS 743.9 million (US$ 161.6 million) from NIS 729.9 million in 2004. The increase was driven primarily by the marketing of more advanced and higher cost handsets and approximately 5% growth in sales transactions to new and upgrading subscribers.

Gross profit for 2005 was NIS 1,356.6 million (US$ 294.7 million), the equivalent of 26.5% of revenues, down 11.1% from NIS 1,525.7 million, or 29.7% of revenues, in 2004. The decrease can be primarily attributed to the increased depreciation, amortization and network expenses related to the Company s 3G network.

Selling and marketing expenses in 2005 were NIS 272.9 million (US$ 59.3 million), a decrease of 16.1% from NIS 325.2 million in 2004. The decrease was principally due to reductions in distribution and advertising costs.

General and administrative expenses in 2005 were NIS 180.8 million (US$ 39.3 million), a decrease of 0.2% from NIS 181.1 million in 2004.The decreases in general and administrative expenses, as with the decreases in selling and marketing expenses, reflect cost-cutting measures the Company put in place as part of its plan to mitigate the effects of the inter-carrier termination rate reductions that were mandated by the Ministry of Communications.

Operating profit for 2005 was NIS 902.9 million (US$ 196.2 million), a decrease of 11.4% from NIS 1,019.3 million in 2004. As a percentage of revenues, operating profit decreased from 19.8% in 2004 to 17.6% in 2005. The decrease can be primarily attributed to the impact of the inter-carrier termination rate reductions that were mandated by the Ministry of Communications, as well as the increased depreciation, amortization and network expenses related to the Company s 3G network.

Financial expenses in 2005 were NIS 345.4 million (US$ 75.0 million), an increase of 32.6% from NIS 260.5 million in 2004. The increase was primarily driven by a one-off charge in the amount of NIS 63 million related to the redemption of the US$ 175 million 13% Senior Subordinated Notes on August 15, 2005, interest charges related to both the redeemed Notes and the new CPI-linked shekel-denominated Notes and a one-off amortization of capitalized expenses related to the Company s previous bank facility.

Income before taxes for 2005 was NIS 557.5 million (US$121.1 million) down 26.5% compared to NIS 758.8 million in 2004.

Net income in 2005 was NIS 354.6 million (US$ 77.0 million) or earnings of NIS 2.19 (US$ 0.48) per basic ADS or share (NIS 2.17 per diluted ADS or share), representing a 24.8% decrease from NIS 471.6 million, or earnings of NIS 2.57 per basic ADS or share (NIS 2.56 per diluted ADS or share), in 2004. The decrease in 2005 net income compared with 2004 resulted primarily from the financial expenses related to the restructuring of the Company s debt, the impact of the inter-carrier termination rate reductions that were mandated by the Ministry of Communications, and the increased depreciation, amortization and network expenses related to the Company s 3G network.

During 2005, our net active subscribers increased by 189,000, or 8.1%.

As of December 31, 2005 our net active subscriber base was 2,529,000, accounting for an approximate market share of 32%. The Company s subscriber base at the end of December 2005 included approximately 507,000 business subscribers (20% of the base), approximately 1,268,000 postpaid private subscribers, (50% of the base), and approximately 754,000 prepaid subscribers, (30% of the base). Of the Company s subscriber base, approximately 103,000 were 3G subscribers. Net new active subscribers in the business sector accounted for approximately 39% of net new active subscribers in the year.

The annual churn rate in 2005 increased to 13.6% from 12.0% in 2004. The increase was primarily due the prepaid sector.

Average monthly usage per subscriber (MOU) for 2005 was 294 minutes, an increase of 2.8% compared with 286 minutes in 2004. In 2005, average monthly revenue per subscriber (ARPU) was NIS 156 (US$ 33.9), a decrease of 8.2% compared with approximately NIS 170 in 2004. The decrease in ARPU is attributed primarily to the reduction in interconnection charges mandated by the Ministry of Communications, despite the increase in MOU.

In 2005, handset subsidies per new subscriber increased compared with 2004. However, the average cost of acquiring a new subscriber (SAC) in 2005 decreased to NIS 282 (US$ 61.3) from NIS 295 in 2004. The reduction reflects a reduction in non-handset subsidy components of SAC including commissions.

Trends

In 2006, due to the highly penetrated market, we expect the rate at which we continue to add net subscribers to be lower than in 2005. With respect to 3G subscriber growth in 2006, we anticipate that lower 3G handset prices should reduce the price differential from 2G handset prices and drive 3G subscriber growth higher.

We also expect revenues to grow in 2006, despite the decline in ARPU that will result primarily from the 9% decline in inter-carrier termination rates from March 2006, as mandated by the Ministry of Communications. Along with a rise in revenues, we foresee increases in operating income, net income and earnings per share and all related margins in 2006. We expect to continue to grow shareholder value in 2006, with the EPS to increase substantially due to higher operating income, substantially lower financial expenses, resulting from the refinancing of our long-term debt in 2005, and the lower average shares outstanding after we repurchased approximately 17% of our outstanding shares from our founding Israeli shareholders. We anticipate that capital expenditures which were lower in 2005 compared with 2004 will rise in 2006, owing to the infrastructure transaction with Med-1. The additional infrastructure purchased from Med-1 will enable us to reduce operating costs over the long-term. In addition, we expect subscriber acquisition and retention costs per subscriber to be higher due to higher subsidies on 3G handsets as compared to 2G handsets. Furthermore, we expect churn to continue to increase, primarily in the prepaid sector.

Results of Operations for the Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

Revenues in 2004 were NIS 5,140.7 million, up 15.1% from NIS 4,467.7 million in 2003. This increase was due to increased revenue from services (including data and content) and equipment, as discussed below.

Revenues in 2004 from services increased by 12.1% to NIS 4,615.8 million, as compared to NIS 4,117.9 million in 2003. The increase was driven primarily by a 16.2 percent increase in total network minutes, offset by a 7.1% dilution in the average tariff per minute including incoming calls. The increase in total network minutes was driven primarily by an expanding subscriber base which grew by 11.3% from the end of 2003 to the end of 2004. The dilution in average tariff per minute in 2004 as compared to 2003 was caused by increased competition and the increased weight of business subscribers in our customer base. The average business subscriber generates substantially more minutes of use than post-paid private and prepaid subscribers, whilst their average tariff per minute is materially lower.

Revenues in 2004 from equipment increased by 50.1% to NIS 525.0 million, as compared to NIS 349.8 million in 2003. The increase was driven primarily by increased revenue per sale and an approximately 13% growth in the number of sales to new and upgrading subscribers in 2004 as compared to 2003.

Data and content revenues, including SMS messages, in 2004 were NIS 351.1 million or 6.8% of total revenues, up 15.6% from NIS 303.8 million, or 6.8% of total revenues in 2003. The increase in revenues in 2004 as compared to 2003, was driven primarily by a 32% increase in revenues from non-SMS services. Revenues from SMS services grew by approximately 5% in 2004 as compared to 2003. SMS messages in 2004 accounted for approximately 50% of data and content revenues as compared to approximately 55% in 2003.

Cost of revenues in 2004 increased by 15.3% to NIS 3,615.0 million from NIS 3,136.5 million in 2003.

Cost of revenues   Services in 2004 increased by 11.5% to NIS 2,885.1 million from NIS 2,586.7 million in 2003. The increase in 2004 as compared to 2003 resulted primarily from the 12.1% increase in service revenues, as the higher level of service revenues, driven by increased minutes of use, resulted in higher variable costs including inter-carrier termination fees and transmission.

Cost of revenues   Equipment in 2004 increased by 32.8% to NIS 729.9 million from NIS 549.7 million in 2003. The increase was driven primarily by higher priced handsets and approximately 13% growth in the number of sales transactions to new and upgrading subscribers.

Gross profit for 2004 was NIS 1,525.7 million, 29.7% of revenues, up 14.6% from NIS 1,331.3 million, 29.8% of revenues, in 2003.

Selling and marketing expenses in 2004 were NIS 325.2 million, an increase of 3.6% from NIS 314.0 million in 2003. The increase was driven primarily by higher distribution and advertising costs in response to increasing competition and the introduction of our 3G network.

General and administrative expenses in 2004 were NIS 181.1 million, up 11.5% from NIS 162.4 million in 2003. The increase was driven primarily by a larger provision for doubtful accounts resulting from the increased volume of handset sales, compensation costs under the new stock option plan, and one-time costs incurred in the Company s attempt to purchase a controlling interest in Matav and a write-off of legal and accounting fees incurred in 2001 in preparing the Company s shelf registration with the United States Securities and Exchange Commission.

Operating profit for 2004 was NIS 1,019.3 million, an increase of 19.2% from NIS 854.9 million in 2003. Operating profit as a percentage of revenues increased to 19.8% from 19.1% in 2003.

Financial expenses in 2004 were NIS 260.5 million, a decrease of 19.0% compared to NIS 321.7 million in 2003. The decrease in financial expenses in 2004 compared to 2003 was driven primarily by lower bank debt levels and lower shekel interest rates offset by the negative revaluation of U.S. dollar foreign currency hedging positions covering foreign exchange exposure on the US$ 175 million 13% subordinated notes. The fair value of these derivative contracts as of December 31, 2004, is a liability of NIS 55.3 million as compared to a liability of NIS 11.5 million on December 31, 2003. The increase in the liability is derived primarily from the strengthening of the shekel by 3.9% in Q4 2004.

Income before taxes for 2004 was NIS 758.8 million, up 43.3% compared to NIS 529.6 million in 2003.

In 2004, the Company had net income of NIS 471.6 million, or NIS 2.56 per ADS or per share, compared to NIS 1,162.7 million, or NIS 6.34 per ADS or per share in 2003. The decrease in net income for 2004 compared to net income for 2003 resulted primarily from the utilization of the Company s accumulated tax loss carry forwards and the creation of deferred tax assets in Q4 2003, in the amount of NIS 633.0 million.

During 2004, our net active subscribers increased by 237,000, or 11.3%.

As of December 31, 2004 our net active subscriber base was 2,340,000, accounting for an approximate market share of 32%, up from 31% at the end of 2003. The subscriber base for 2004 is comprised of 1,207,000 post-paid private subscribers (51.6% of the base) 700,000 prepaid subscribers (29.9% of the base) and 433,000 post-paid business subscribers (18.5% of the base). Net new active subscribers in the business sector accounted for approximately 36% of net new active subscribers in 2004.

The annual churn rate for 2004 decreased to 12.0%, compared to 13.6% in 2003. We believe that the decrease in chum resulted primarily from an increased level of retention activities in 2004 as compared to 2003.

Average monthly usage per subscriber (MOU) for 2004 was 286 minutes, an increase of 3.2% from the MOU for 2003, which was 277 minutes. Average monthly revenue per subscriber (ARPU) for 2004 was 170 NIS compared to NIS 171 in 2003, a decline of 0.6%. The decrease in ARPU, despite the increase in MOU, is derived primarily from downward pressure on tariffs, driven by increasing competition.

In 2004, lower handset subsidies caused the average cost of acquiring a new subscriber (SAC) to decline from 2003. The lower handset subsidies were achieved as a result of higher charges related to handsets in the business and private sectors. 2004 SAC was NIS 295, compared to NIS 362 for 2003, a decline of 18.5%.

Impact of Inflation and Exchange Rate Fluctuations

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, through December 31, 2005, a substantial amount of our operating expenses were linked to non-shekel currencies. These expenses related mainly to the acquisition of handsets where the price paid by us is based on various foreign currencies. In addition, most of our capital expenditures are incurred in, or linked to, non-shekel currencies, and our notes redeemed in August 2005, were denominated in US dollars and require US dollar interest payments. Thus, any devaluation of the shekel against the non-shekel currencies will increase the shekel cost of our non-shekel denominated or linked expenses. Such an increase may have an impact on our results, which may be material. We hedge most of our foreign currency commitments.

Although we have the ability to borrow under our bank credit facility in US dollars and Euro, our borrowings are in shekels, and most of our shekel bank borrowings and our new notes are linked to the Israeli CPI. We may not be permitted to raise our tariffs pursuant to our license in a manner that would fully compensate for any increase in the Israeli CPI. Therefore, an increase in the rate of inflation may also have a material adverse impact upon us by increasing our financial expenses without an offsetting increase in revenue. We partly hedge the principal amount of our new notes (due 2012), against adverse movement in the Israeli Customer Price Index (CPI).

5B. Liquidity and Capital Resources

The mobile telephone business is highly capital intensive, requiring significant capital to acquire a license, construct mobile telecommunications networks. The capital requirements of our network are determined by the coverage desired, the expected call traffic and the desired quality and variety of services. Network construction costs are mainly related to the number of cells in the service area, the number of radio channels in the cell and the switching equipment required.

Currently, our main sources of liquidity are:

our operating cashflows;

our credit facility; and

our Notes due 2012.

On April 14, 2005, we entered into a new $550 million bank credit facility, replacing our previous bank facility. The new facility includes a $450 million term loan facility and a $100 million revolving loan facility, both maturing in six years. With effect May 1, 2005, we exercised an option to reduce the term facility (other than an advance of approximately $25 million carried over from the previous facility) to $150 million and change the maturity date for both facilities to September 1, 2009. The new credit facility is secured by a first ranking, floating charge on our assets, and those of our wholly-owned subsidiary. Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., Israel Discount Bank Ltd. and United Mizrahi Bank Ltd. are participating in the facility, with Bank Hapoalim B.M. serving as facility agent and Bank Leumi Le-Israel B.M. serving as coordinating agent. At December 31, 2005, the balances available for drawing were approximately $88 million under Facility B, and $28 million under Facility A.

On March 31, 2005, we completed the offering of our Notes due 2012, raising NIS 2.0 billion in a public offering in Israel. Of these, notes having an aggregate principal amount of approximately NIS 36.5 million were purchased by our wholly owned subsidiary Partner Future Communications 2000 Ltd., or PFC. PFC also received an additional allocation of notes having an aggregate principal amount of NIS 500 million. The notes that PFC received pursuant to this additional allocation do not confer the right to receive any payment whatsoever on account of principal or interest until they are sold by PFC to a third party.

The term of the Notes due 2012 is seven years and the principal and interest payments are linked to the Israeli consumer price index. The annual interest on the notes is 4.25% and will be paid quarterly. Quarterly principal repayments will begin in June 2009. The notes were rated AA- by Maalot, and Aa2 by Midroog, two of Israel s rating agencies. We used the net proceeds from the offering to pay down some of our existing credit facility, to repurchase up to 33.3 million shares from our founding Israeli shareholders and to redeem our 13% Senior Subordinated Notes due 2010. These 13% Senior Subordinated Notes due 2010 were originally issued in August 2000, and net proceeds from the offering for those notes were used at that time mainly to repay a portion of the outstanding indebtedness under our credit facility.

On April 20, 2005, the Company repurchased approximately 33.3 million of its shares pursuant to an offer received from its founding Israeli Shareholders in February 2005. These shareholders held together approximately 22.5% of the Company s outstanding shares at the time of the offer. As a result of the repurchase, the collective shareholdings of the founding Israeli shareholders were reduced to approximately 5.4% of the Company s issued and outstanding share capital. The price per share at which these shares were acquired was NIS 32.2216 per share. The total consideration paid for the shares was approximately NIS 1,074 million. The Company cancelled the repurchased shares.

On August 15, 2005, the Company redeemed its outstanding US$ 175 million 13% Senior Subordinated Notes due 2010. According to the terms of the Notes, the redemption price was 106.5% of the principal amount, or $186.375 million. The redemption, which was financed from the Company s new bank facility and funds generated from current operations, concluded the refinancing of the Company s long term debt into lower cost CPI linked shekel-denominated debt.

In the third quarter of 2005, our Board of Directors and shareholders approved the distribution of our first cash dividend, in the amount of NIS 0.57 per share, totaling approximately NIS 86.4 million to our shareholders of record as of September 26, 2005.

In the first quarter of 2006 our Board of Directors and shareholders approved the distribution of an additional cash dividend, in the amount of NIS 0.65 per share (totaling approximately NIS 100 million) to our shareholders of record as of April 10, 2006.

In the second quarter of 2006, we adopted a dividend policy targeting a payout ratio of 60% of net income over 2006. As part of this policy, our Board of Directors approved the distribution of a cash dividend of NIS 0.45 per share (totaling approximately NIS 70 million) for the first quarter of 2006 to shareholders of record as of June 6, 2006.

The Company signed on January 22, 2006, an agreement with MED I.C.- 1 (1999) Ltd (Med 1) to purchase its fiber-optic cable infrastructure comprising of a network of approximately 900 kilometers of submerged and terrestrial transmission fiber for approximately US$ 14.8 million, subject to certain adjustments. Completion of the transaction is subject to fulfillment of closing conditions.

Cash flows generated from operating activities in 2005(NIS 1006.3 or US$ 218.6 million) net of cash flows from investing activities (NIS 546.7 million or $US 118.7 million), totaled NIS 459.6 million (US$ 99.9 million). Cash flows generated from operating activities in 2004 (NIS 1272.8 million), net of cash flows from investing activities (NIS 673.6 million) totaled NIS 599.2 million in 2004, a decrease of 23.3%.

The decrease was primarily due to a decrease in cash flows from operating activities, offset by a decrease in the level of investment in fixed assets. The main reasons for the decrease in cash flows from operating activities were the payment of one-off charges related to the redemption of the US$ 175 million 13% Senior Subordinated Notes, interest charges related to both the redeemed Notes and the new CPI-linked shekel-denominated Notes and inventory charges

We expect cash flows from operations net of cash flows from investing activities to increase from 2005 amounts.

From January 1, 2003 to December 31, 2005, we made cumulative net capital expenditures of approximately NIS 1,319 million, of which NIS 486 million ($106 million) was incurred in 2005. We expect that capital expenditures for our network will continue to represent the largest portion of our total capital expenditures over the next few years. We expect capital expenditures, which were lower in 2005, compared with 2004 to increase in 2006, owing to the infrastructure transaction with Med-1.

We believe that funds from our operations, together with funds available under our new credit facility and our Notes due 2012, will provide us with enough liquidity and resources to fund our expected capital expenditure needs, as well as our obligations under our financing agreements, our license payments and our other material commitments, at least for the next 12 months. However, the actual amount and timing of our future requirements may differ materially from our estimates.

5C. Research and Development, Patents and Licenses

We are primarily a user rather than a developer of technology. Accordingly, we did not engage in any significant research and development activities during the past three years.

5D. Trend Information

See -Trends in Item 5A. Results of Operations for the Year Ended December 31, 2005, Compared to the Year Ended December 31, 2004 above.

5E. Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

5F. Aggregate Contractual Obligations

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2005:

		Payments Due by Period (NIS in thousands)			
Contractual Obligations	**Total**	**2006**	**2007-2008**	**2009-2010**	**2011 and after**
Long-Term Debt	3,245,075	153,716	684,258	1,537,628	869,473
Capital Lease Obligations	17,018	4,862	9,725	2,431	
Operating Leases	925,516	160,579	261,644	173,816	329,477
Contribution to funds in respect of Employee rights upon retirements	21,000	21,000			
Unconditional Purchase Obligations:					
UMTS third generation spectrum	29,000	29,000			
Handsets	160,000	160,000			
Fixed Assets	114,000	114,000			
Other Long-Term Obligations					
Total Contractual Cash Obligations	4,511,609	643,157	955,627	1,713,875	1,198,950

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6A. Directors and Senior Management

Directors

Name of Director	Age	Position
Fok Kin-ning, Canning	54	Chairman of the Board of Directors
Dr. Michael J. Anghel (2)(4)	67	Director

Name of Director	Age	Position
Chan Ting Yu (1)(3)	55	Director
Chow Woo Mo Fong, Susan	52	Director
Uzia Galil	80	Director
Erez Gissin (1)(2)	47	Director
Dennis Pok Man, Lui (1)(3)	55	Director
Pesach Shachar (1)	72	Director
Amikam Shorer	38	Director
Frank John Sixt	54	Director
Moshe Vidman (1)(2)(3)(4)	62	Director

(1) Member of the Executive Committee of the Board of Directors.
(2) Member of the Audit Committee and independent director under the listing requirements of the Nasdaq National Market.
(3) Member of the Compensation Committee.
(4) External Director under the Companies Law.

Fok Kin-ning, Canning has been a director of Partner since May 1998 and the Chairman of its Board of Directors since that time. Mr. Fok has been an Executive Director of Hutchison Whampoa Limited since 1984 and its Group Managing Director since 1993. He also serves as the Chairman of Hutchison Harbour Ring Limited, Hutchison Telecommunications International Limited, Hutchison Telecommunications (Australia) Limited, Hongkong Electric Holdings Limited and Hutchison Telecommunications Limited (the holding company of the telecommunications interests of Hutchison Whampoa Limited), and in addition, Mr. Fok is the Co-Chairman of Husky Energy Inc. and the Deputy Chairman of Cheung Kong Infrastructure Holdings Limited. He is also a Director of Cheung Kong (Holdings) Limited. Mr. Fok holds a Bachelor of Arts degree from St. John s University in Minnesota, United States and a diploma in financial administration from the University of New England in Australia. He is a member of the Australian Institute of Chartered Accountants. Mr. Fok was nominated as a director, and as the Chairman of the Board of Directors, by Advent Investments Pte Ltd., or Advent.

Dr. Michael J. Anghel became a director of Partner in March 2006. From 1977 to 1999, he led the Discount Investment Corporation Ltd. (of the IDB Group) activities in the fields of technology and communications. Dr. Anghel was instrumental in founding Tevel, one of the first Israeli cable television operators and later in founding Cellcom the second Israeli cellular operator. In 1999 he founded CAP Ventures, an advanced technology investment company. From 2004-2005, Dr. Anghel served as President and CEO of DCM, the investment banking arm of the Israel Discount Bank. He has been involved in various technology enterprises and has served on the boards of various major Israeli corporations and financial institutions including Elron, Elbit, Nice, Gilat, American Israeli Paper Mills, Maalot (the Israeli affiliate of Standard and Poor s) and Hapoalim Capital Markets. He currently serves on the boards of Syneron Medical Ltd., Orbotech Ltd., Powerdsine Ltd., and Scopus Ltd. Prior to launching his business career, Dr. Anghel served as a full-time member of the Recanati Graduate School of Business Administration of the Tel Aviv University, where he taught finance and corporate strategy. He currently serves as Chairman of the Tel Aviv University s Executive Program, which he originally helped to found. Dr. Anghel holds a B.A. (Economics) from the Hebrew University in Jerusalem and an M.B.A. and Ph.D. (Finance) from Columbia University in New York.

Chan Ting Yu was a director of Partner from October 1997 to March 2000 and became a director again in May 2001. He is a member of the Executive Committee and the Compensation Committee. Mr. Chan is an Alternate Director of Hutchison Telecommunications International Limited. Since joining the Hutchison Whampoa group, he has been closely involved in the management and development of Hutchison s telecommunications business internationally. Mr. Chan holds a degree in Law and Arts (Maths), as well as a Postgraduate Certificate in Laws. Mr. Chan was nominated as a director, and as a member of the Executive Committee, by Advent Investments Pte Ltd.

Chow Woo Mo Fong, Susan has been a director of Partner since August 1998. Mrs. Chow has been an Executive Director of Hutchison Whampoa Limited since 1993 and its Deputy Group Managing Director since 1998. Mrs. Chow is also an Executive Director of Cheung Kong Infrastructure Holdings Limited, Hutchison Harbour Ring Limited and a Director of Hutchison Telecommunications (Australia) Limited, Hongkong Electric Holdings Limited, TOM Group Limited and Hutchison Telecommunications Limited. She is also an Alternate Director of Hutchison Telecommunications International Limited and TOM Online Inc. She is a solicitor and holds a Bachelor s degree in Business Administration. Mrs. Chow was nominated as a director by Advent Investments Pte Ltd.

Uzia Galil has been a director of Partner since August 1999. Mr. Galil currently serves as Chairman and Chief Executive Officer of Uzia Initiatives and Management Ltd., a company specializing in the promotion and nurturing of new businesses associated with mobile communication, electronic commerce and medical information media, which he founded in November 1999. From 1962 until November 1999, Mr. Galil served as President and Chief Executive Officer of Elron Electronics Industries Ltd., an Israeli high technology holding company, which he founded and of which he also served as Chairman of the Board. From January 1981 until leaving Elron, Mr. Galil also served as Chairman of the Board of Directors of Elbit Ltd., an electronic communication affiliate of Elron, and as a member of the Boards of Directors of Elbit Systems Ltd., a defense electronics affiliate of Elron, and all other private companies held in the Elron portfolio. Mr. Galil currently serves as a member of the Boards of Directors of Orbotech Ltd., NetManage Inc., and as Chairman of Zoran Corporation. From 1980 to 1990, Mr. Galil served as Chairman of the International Board of Governors of the Technion. Mr. Galil holds a M.S. in Electrical Engineering from Purdue University and a B.S. from the Technion. Mr. Galil has also been awarded an honorary doctorate in technical sciences by the Technion in recognition of his contribution to the development of science-based industries in Israel, an honorary doctorate in philosophy by the Weitzman Institute of Science, an honorary doctorate in engineering by Polytechnic University, New York, and an honorary doctorate from the Ben-Gurion University of the Negev in Israel and the Solomon Bublick prize laureate from the Hebrew University of Jerusalem. In 1997 he was awarded the prestigious Israel Prize for his contribution to the development of the Israeli hi-tech industry. Until April 20, 2005, Mr. Galil had been a director nominated by Elbit.COM. Since then, Mr. Galil serves as a director on behalf of Advent Investments Pte Ltd.

Erez Gissin has been a director of Partner since August 1998 and is currently a member of the Executive Committee and the Audit Committee. Since April 2005, Mr. Gissin is a private investor through his management and investment company. For the prior five years, Mr. Gissin has been the CEO of IP Planet Network Ltd., an Israeli telecommunication company providing satellite broadband services. Previously, he was the Vice President of Business Development of the Eurocom Group, an Israeli leader in telecom and internet products and services. Mr. Gissin holds a Bachelor of Science in Industrial Engineering from Tel Aviv University and an MBA degree from Stanford University, California. Until April 20, 2005 Mr. Gissin had been a director nominated by Eurocom. Since then and until September 12, 2005, Mr. Gissin served as a director and member of the Executive Committee, on behalf of Advent Investments Pte Ltd. Since then, Mr. Gissin is an independent director and serves on the Executive committee and the Audit Committee of the Company.

Dennis Pok Man Lui has been a director of Partner since April 2004 and is the Chairman of the Executive Committee and the Chairman of the Compensation Committee. Mr. Lui is an Executive Director and the Chief Executive Officer of Hutchison Telecommunications International Limited. He first joined the Hutchison Whampoa Limited group in 1986 and was the managing director in charge of the mobile telecommunications, land-line, multi-media, internet and paging businesses in Hong Kong, China, Taiwan and Macau from January 1989 until 2000. Mr. Lui rejoined the Hutchison Whampoa Limited group in May 2001 as group managing director of HTI (1993) Holdings Limited (HTI) overseeing all the operations and new business development of the HTI group. He holds a Bachelor of Science Degree from the University of Oregon. Mr. Lui was nominated as a director, and as a member of the Executive Committee, by Advent Investments Pte Ltd.

Pesach Shachar has been a director of Partner since May 1998 and is a member of the Executive Committee. For 21 years he was the General Manager, founder, and a shareholder in Nogay Ltd., a telecommunications consulting firm active in numerous high-tech projects in Israel and overseas. In that capacity, he advised Hutchison on the prospects in the cellular market in Israel, established the Partner shareholder consortium and advised Hutchison on the bidding for the license and launch of operations. Mr. Shachar served 28 years in the Israel Defense Forces Signal Corps and Air Force/Telecommunications, reaching the rank of Colonel. Mr. Shachar was nominated as a director, and as a member of the Executive Committee, by Advent Investments Pte Ltd.

Amikam Shorer has been a director of Partner since June 2005. He was nominated as director by our Israeli founding shareholders. Mr. Shorer has served as Vice President of Business Affairs and the General Counsel of Eurocom Group, an Israeli leader in telecom and internet products and services, since 2000. Mr. Shorer also serves as a director in several companies within the Eurocom Group. Mr. Shorer holder an LLB degree from Bar-Ilan University.

Frank John Sixt has been a director of Partner since May 1998. Mr. Sixt has been an Executive Director of Hutchison Whampoa Limited since 1991 and its Group Finance Director since 1998. He is the Chairman of TOM Group Limited and TOM Online Inc. He is also an Executive Director of Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited and a Director of Cheung Kong (Holdings) Limited, Hutchison Telecommunications International Limited, Hutchison Telecommunications (Australia) Limited, Husky Energy Inc., and Hutchison Telecommunications Limited. He holds a Bachelor of Arts degree and a Master of Arts degree from McGill University and a Bachelor s degree in Civil Law from the University of Montreal, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada. Mr. Sixt was nominated as a director by Advent Investments Pte Ltd.

Moshe Vidman has been a director of Partner since October 2003. Mr. Vidman is the Revlon representative in Israel and serves as a director of the following companies: Israel Corporation Ltd., ICL Israel Chemical Ltd., Rotem Amfert Negev Ltd., Dead Sea Works Ltd., Jafora-Tabori Ltd., Rosebud Medical Ltd., Ex-Libris Ltd., Bank Leumi Le Israel Ltd., Melisron and Ofer Brothers Properties (1957) Ltd. Since 2000 Mr. Vidman is the Revlon Representative in Israel and serves as a Mr. Vidman is also a member of the Board of Directors and a member of Executive Committee of the Jerusalem Foundation. He also serves as a member of the Board of Governors and the Chairman of the Endowment Fund Committee and Chairman of the assets Company of the Hebrew University. Previously he held various positions at the Ministry of Education and Culture. From 1978 until 1983 Mr. Vidman served as the Deputy Accountant General in the Ministry of Finance. From 1983 until 1990 he served as the President and Chief Financial Officer of Aryt Optronics Ltd., a hi-tech company which developed optics and laser applications for military and medical use. From 1990 until 1999 Mr. Vidman was the Managing Director of Revlon Israel and until March 1999 he served as a director of Koor Industries and Chairman of its Investment Committee. He also served as Chairman of the Executive Committee of Africa-Israel Ltd. and as the Chairman of the Board of Directors of Africa-Israel Hotels.

Termination of Office

Professor Ben-Zion Zilberfarb served as a external director under the Companies Law until February 2006.

Senior Management

Name of Officer	Age	Position
Amikam Cohen	57	Chief Executive Officer
David Avner	54	Deputy Chief Executive Officer and Chief Operating Officer
Alan Gelman	50	Chief Financial Officer
Iris Beck	40	Vice President, Marketing
Chaim Beker	61	Vice President, Operations
Alon Berman	45	Vice President, Technologies
Adi Biran	62	Vice President, Regulation and New Business Development
Michal Dana	50	Vice President, Human Resources and Operations (from May 2006)
Dan Eldar	52	Vice President, Carrier, International and Investor Relations
Amnon Gideon	53	Vice President, Human Resources and Operations (until April 30, 2006)
Zion Ginat	46	Vice President, Customers
Roly Klinger	46	Vice President, Chief Legal Counsel and Joint Company Secretary
Edith Shih	53	Joint Company Secretary

Amikam Cohen has been Partner s Chief Executive Officer since the commencement of its operations and a director in the Board of Directors of Partner since April 20, 2005. From 1996 to 1998, he was Chief Executive Officer of Elite Industries Ltd., one of Israel s largest confectionery and coffee producers and marketers. From 1991 to 1996, Mr. Cohen was Managing Director of Strauss Dairies Ltd. From 1987 to 1990, he was General Manager of the Refrigerator and Air Conditioner Division of Tadiran Home Appliances Ltd. From 1978 to 1986, Mr. Cohen served in numerous capacities at the Tadiran Telecommunications Group, including General Manager of the Public Switching Division, General Manager of the Microelectronics Section, and Director of the entire group s purchasing department. He holds a Bachelor of Science degree in Industrial Management Engineering from Ben Gurion University, Beersheva, Israel.

David Avner was appointed Deputy CEO in April 2005 and COO in January 2006. Prior to joining the Company, Mr. Avner served as Senior Vice President of Operations and Member of the executive management at Amdocs Limited. Previously, he served at Amdocs as Group President Europe and LATAM & Member of Management. Prior to that, Mr. Avner served at Strauss Dairy Ltd. for 17 years, the last four as General Manager of the Dairy Division. He was also the General Manager of Strauss Ice Creams Ltd., and Manager of Information Systems at Strauss Dairy Ltd. Mr. Avner also served as Active Director of Yotvata Dairies Subsidiary since 1998. He holds a Bachelor of Arts degree in Mathematics/Computer Sciences and Philosophy from Haifa University in Israel and an MBA degree from the Technion, Israel Institute of Technology.

Alan Gelman was appointed Chief Financial Officer of Partner in January 2001. For the three years prior to joining Partner, Mr. Gelman served as Chief Financial Officer and Vice President of Barak ITC, one of Israel s providers of international voice, data and internet services. From 1994 to 1997, Mr. Gelman served as the Controller for Cellcom Israel Ltd. Mr. Gelman holds a Bachelor s degree in Accounting from Queens College in New York and an MBA from Hofstra University in New York. Mr. Gelman is licensed as a Certified Public Accountant in the USA (New York) and in Israel. Mr. Gelman was nominated as Chief Financial officer by Advent, with the approval of our Board, pursuant to the relationship agreement described in Item 7B. Major shareholders and Related Party Transactions Related Party Transactions Relationship Agreement.

Iris Beck was appointed Vice President, Marketing in December 2002. Prior to joining the Company, she served as General Manager of Lever Israel (local subsidiary of Unilever). Ms. Beck worked at Lever Israel from 1996 and held senior positions such as Marketing Director and Technical Director before her appointment as General Manager. Ms. Beck worked as Brand Manager at Strauss Ice Cream from 1993 to 1996, and as Project Controller at Kulick & Soffa from 1991 to 1993. Ms. Beck holds a Bachelor s degree in Economic Science (with distinction) from Haifa University, and Master of Arts degree in Marketing (with distinction) from Bar-Ilan University.

Chaim Beker was appointed as Vice President Operations in January 2004. Since 1998, Mr. Beker has served in a number of positions at Partner, such as: Administration and Purchasing Manager and Deputy Vice President Operations. From 1974 to 1984 Mr. Beker served as Vice President Administration of ARKIA. From 1984 he served as the CEO of several companies such as: Europcar, HaMashbir Agencies and Clal Israel. Mr. Beker holds a Bachelor s degree in Economics from the Hebrew University.

Alon Berman was appointed Vice President, Technologies in October 2004. Mr. Berman joined Partner as Deputy VP of Engineering in the Technologies division at the end of 2002, after serving 20 years in the Israeli Defense Forces, rising to the rank of Colonel and Head of Technical Department in the Communications Corps. Mr. Berman holds a bachelor degree in Electronic Engineering from the Technion Israel Institute of Technology (1982), a Master Degree in Electronic Engineering (1991) and MBA (1994) from Tel Aviv University.

Adi Biran joined Partner in October 1997 and in April 1998 became Vice President, Regulation and New Business Development. Mr. Biran came to Partner from Elbit Ltd., where, since 1992, he headed their effort to enter the telecommunications market and in that capacity, guided their participation and managed the bid preparation process that resulted in Partner s mobile radio telephone license. Prior to joining Elbit, he was Managing Director of Efrat Future Technology Ltd., a subsidiary of Comverse Technology Inc. Mr. Biran continued till October 2003 to be an employee of Elbit in connection with matters unrelated to Partner on which he worked prior to joining Partner. He completed his 20-year career in the Israel Air Force as a colonel and as chief of research and development. Mr. Biran holds a Bachelor s degree in Aeronautical Engineering with distinction from the Israel Institute of Technology (Technion), Haifa, Israel.

Michal Dana will join Partner as Vice President, Human Resources and Operations in May 2006. She worked at Amdocs since 2002, where she served first as the Director of Human Resources for Amdocs European and Latin American division, and from 2005 as the Vice President of Human Resources, overseeing the worldwide customer business group for all human resource activities in Europe, Asia Pacific, and Latin America. From 2000 to 2002, Ms. Dana served as the Vice President of Human Resources for Bungee Communications, a start-up wireless broadband telecommunications company. Before that, she served from 1999-2000 as the Director of Human Resources for the Carmel Containers Systems Group, from 1996-1999 as the Director of Human Resources for the Caesarea Development Corporation, and from 1980-1996 as the Senior Human Resource Consultant for Pilat international consulting group. She holds a B.A. in Social Science from the Open University in Israel.

Dan Eldar serves as Vice President, Carrier, International and Investor Relations for Partner. He is also responsible for strategic planning. Dr. Eldar joined Partner in April 1998. Since 1989, Dr. Eldar has served as the managing director of an Israeli consulting firm specializing in strategic planning, negotiation and project management. Dr. Eldar has managed many large-scale projects in the telecommunications and semiconductor industries, as well as in other areas. He holds PhD and M.A. degrees from Harvard University and M.A. and B.A. degrees from the Hebrew University, Jerusalem.

Amnon Gideon was appointed Vice President, Human Resources in January 2001. Prior to joining the Company, Mr. Gideon served as Manager of Human Resources at Motorola Israel Ltd. From 1991 until 1994, Mr. Gideon served as the Executive Director of the Association for Civil Rights in Israel. Mr. Gideon holds a Bachelor s degree in Political Science and Psychology from Bar-Ilan University and a Master s degree in Human Resource Management from the University of Derby.

Zion Ginat was appointed Vice President, Customers (Sales and Customer Service) in January 2005. Mr. Ginat joined Partner in 2002 as Deputy VP, Sales Division and in 2004 was appointed as Deputy VP, Customer Service Division. Prior to joining Partner, Mr. Ginat served as General Manager of Tecnomatix-Asia Pacific, VP Sales and Marketing of Tadiran Appliances Ltd. Israel and as Managing Director of a subsidiary of Koor Trade. Mr. Ginat holds a Bachelor s degree and a Master s degree in Mechanical Engineering from Tel Aviv University.

Roly Klinger Vice President, Chief Legal Counsel and Joint Company Secretary, joined Partner in August 1998. From 1993, she served as Legal Advisor and Corporate General Secretary of Keshet Broadcasting Ltd., which holds an operating franchise for Israel s first commercial television channel. Previously, while practicing in the private sector, she lectured on communications law at the College of Management Academic Studies, Tel-Aviv. Ms. Klinger received an LL.B degree from Tel Aviv University and is admitted to the Israel Bar.

Edith Shih has been the Joint Company Secretary of Partner since July 1998. Ms. Shih has been a senior manager of Hutchison Whampoa Limited since 1991, its Head Group General Counsel since 1993 and its Company Secretary since 1998. She is currently an executive director and the Company Secretary of Hutchison Harbour Ring Limited, an executive director of Hutchison International Limited and director of various Hutchison group companies. She is also the Company Secretary of Hutchison Telecommunications International Limited and the Joint Company Secretary of Hutchison Telecommunications (Australia) Limited. She holds a Bachelor of Science and a Master of Arts degree from the University of the Philippines, a Master of Arts and a Master of Education degree from Columbia University, New York. She is qualified to practice law in Hong Kong, England and Wales and Victoria, Australia, and is a fellow of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Except as disclosed above, none of the above directors or members of senior management has any family relationship with any other director or senior manager of the Company. Senior managers, except for the Chief Financial Officer, as disclosed above, are selected by the CEO with the approval of the Board for an indefinite term of office and may be removed by the Board at any time.

6B. Compensation

The aggregate compensation paid, and benefits in kind granted to or accrued on behalf of all our directors and senior managers for their services in all capacities during the year ended December 31, 2005 was approximately NIS 23 million ($5 million). In 2005 options were granted to our senior management under the 2004 Employee Stock Option Plan to purchase up to 375,000 of our ordinary shares at an exercise price of NIS 30.73 and NIS 33.72 per share. These options will expire in December 2014, subject to earlier expiration upon the termination of employment under certain circumstances. For more information, see Item 6E. Directors, Senior Management and Employees Share Ownership 2004 Employee Stock Option Plan . Included in the above, the total amount set aside or accrued to provide pension, retirement or similar benefits on behalf of all our directors and senior managers during the year ended December 31, 2005 was approximately NIS 0.8 million ($0.2 million).

6C. Board Practices

References in this annual report to external directors are to those directors who meet the definition of external directors under the Companies Law, and references in this annual report to independent directors are to those directors who meet the definition of independence under applicable listing requirements of Nasdaq.

Terms of Directors

Directors are elected at the annual shareholders meeting to serve for three years, in the case of external directors under the Companies Law, or until the next annual meeting of the shareholders, in the case of other directors; or until their respective successors are elected and qualified, whichever occurs first. An extraordinary meeting of the Company may elect any person as a director to fill an office which became vacant, or to serve as an external director or an independent director, or if the number of the members of the Board of Directors is less than the minimum set in the Articles of Association. Any director elected in such manner (excluding an external director) shall serve in office until the coming annual meeting. The Articles of Association also provide that the Board, with the approval of 75% of the directors, may appoint an additional director to fill a vacancy. The Company s Articles of Association provide that the Board may delegate all of its powers to committees of the Board as it deems appropriate, subject to the provisions of the Companies Law. No director has a service contract with the company or its wholly-owned subsidiaries providing for benefits upon termination of employment. Officers of Partner serve at the discretion of the Board or until their successors are appointed. See Item 4. Information on the Company 4B. Business Overview Regulation Our License. for description of additional requirements of the composition of our Board of Directors and the appointment of its members.

Alternate Directors

Our Articles of Association provide that a director may appoint any individual to serve as an alternate director. An alternate director may not serve as such unless such person is qualified to serve as a director. In addition, no person who already serves as a director or alternate director of Partner may serve as the alternate director of another director of Partner. Under the Companies Law, an alternate director shall have all of the rights and obligations of the director appointing him or her, except the power to appoint an alternate. The alternate director may not act at any meeting at which the director appointing him or her is present. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment is effective for all purposes and for an indefinite time, but will expire upon the expiration of the appointing director s term.

External Directors under the Companies Law

The Companies Law requires that Partner have at least two external directors on its Board of Directors. The election of an external director under the Companies Law must be approved by a general meeting of shareholders provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders voted at the meeting, vote in favor of such arrangement or (b) the total number of shares voted against such arrangement does not exceed one percent of the aggregate voting rights in the company.

The Companies Law further requires that at least one external director have financial and accounting expertise, and that the other external director(s) have professional competence, as determined by the company s board of directors. Under recently enacted regulations, a director having financial and accounting expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company s financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the company s business, or has at least five years experience in a senior position in the business management of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the field of the company s business.

Dr. Michael Anghel and Moshe Vidman are our external directors under the Companies Law.

Financial Experts under the Companies Law

In accordance with the Companies Law, Partner has determined that the minimum number of directors with accounting and financial expertise that Partner believes is appropriate, in light of the particulars of Partner and its activities, is three. Under the Companies Law, only one of such experts is required to be an external director.

Executive Committee

Our Executive Committee was nominated by the Board of Directors on July 15, 1998. Our Executive Committee comprises members who are directors appointed by the Board of Directors from time to time. Subject to the provisions of the Companies Law, the Executive Committee is authorized to make all major decisions relating to the business affairs of Partner. The Executive Committee is authorized by the Board of Directors to approve contracts, commitments and other transactions up to a value determined by the Board of Directors from time to time. Ting Chan, Erez Gissin, Dennis Lui, Pesach Shachar, and Moshe Vidman are members of our Executive Committee.

Audit Committee

The Companies Law requires public companies, including Partner, to appoint an audit committee comprised of at least three board members, including all the company s external directors. The chairman of the board, any director employed by the company or granting services to the company on a permanent basis, any controlling shareholder or any relative of a controlling shareholder may not be a member of the audit committee. The responsibilities of our audit committee under the Companies Law include identifying irregularities in the management of the company s business and approving related party transactions as required by law.

Pursuant to the rules of the Securities and Exchange Commission, or SEC, and the listing requirements of the Nasdaq National Market, we are required to establish an audit committee consisting only of members who are independent of management, as defined by SEC rules and Nasdaq listing requirements. In accordance with the SEC and Nasdaq requirements, our audit committee is directly responsible for the appointment, compensation and oversight of our independent auditors.

The Board has determined that Moshe Vidman is an audit committee financial expert as defined by applicable SEC regulations. See Item 16A. Audit Committee Financial Expert below.

Our audit committee consists of three board members, Moshe Vidman, Erez Gissin, and Dr. Michael Anghel, all of which meet Nasdaq s definition of independent directors, and two of whom (Moshe Vidman and Dr. Michael Anghel) meet the Companies Law s definition of external directors. None of them is an affiliated person of Partner or has received any consulting, advisory or other compensatory fee from Partner, other than in their capacity as directors of Partner.

Compensation Committee

Our compensation committee consists of three board members, of which one is an external, independent director. Subject to the requirements of the Companies Law, the compensation committee is responsible for evaluating and recommending to the board (and to the audit committee, if so required under any applicable law) the total compensation package for the Company s Chief Executive Officer and all other officers; reviewing the results and procedures for the evaluation of the performance of other officers by the Company s Chief Executive Officer; making recommendations to the Board regarding any long-term incentive compensation or equity plans; and supervising the administration of the plans and periodically reviewing a comprehensive statement of executive compensation policy. Dennis Lui and Moshe Vidman, and Ting Chan are members of the compensation committee.

Security Committee

Pursuant to an amendment to our license from April 2005, a new board committee has been formed to deal with security matters. Only directors with the required clearance and those deemed appropriate by Israel s General Security Service may be members of this committee. The committee must consist of at least four members, who are subject to the clearance required from the Israeli General Security Service and at least one external director. Where any matter requires a board s resolution and it is a security matter, then the committee should be authorized to discuss and to resolve such security matter and the resolution should bind the Company. However, in cases where the security matter concerned is a transaction with a related party, the transaction should be submitted for approval in accordance with the requirements of the applicable U.S law, the Israeli Companies Law and any other applicable laws, provided that, in any case, only directors with security clearance can participate in any forum which will deal with security matters. On April 12, 2005, our Board of Directors approved the formation of the Security Committee to consist of four Israeli directors, which are subject to Israeli security clearance and security compatibility to be determined by the General Security Service. Uzia Galil, Pesach Shachar, and Moshe Vidman are members of the Security Committee, subject to clearance by the Israeli General Security Service and one position on the security committee is currently vacant.

Internal Auditor

The Companies Law requires the board of a public company to appoint an internal auditor nominated by the audit committee. A person who does not satisfy certain independence requirements may not be appointed as an internal auditor. The role of the internal auditor is to examine, among other things, the compliance of the company s conduct with applicable law and orderly business procedures. Our internal auditor is Mr. Yehuda Motro, formerly the internal auditor of the Tel Aviv Stock Exchange.

Fiduciary Duties of an Office Holder

The Companies Law governs the duty of care and duty of loyalty which an Office Holder has to the company. An Office Holder is defined in the Companies Law as a director, general manager, chief executive officer, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person s title and other managers directly subordinate to the general manager.

The duty of loyalty requires the Office Holder to avoid any conflict of interest between the Office Holder s position in the company and personal affairs, and proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantages for him or herself or others. This duty also requires him or her to reveal to the company any information or documents relating to the company s affairs that the Office Holder has received due to his or her position as an Office Holder. The duty of care requires an Office Holder to act in a way that a reasonable Office Holder would act in the same position and under the same circumstances. This includes the duty to utilize reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information.

Approval of Related Party Transactions

Generally, under the Companies Law the compensation of an Office Holder who is a director, or the compensation of an Office Holder who holds a controlling interest in the company, requires the approval of the audit committee, the Board of Directors and the general meeting of the shareholders of the company. The Companies Law also requires that a transaction between the company and its Office Holder and also a transaction between the company and another person in which an Office Holder has a personal interest, requires the approval of the Board of Directors if such transactions are not extraordinary transactions, although, as permitted by law and subject to any relevant stock exchange rule, our Articles of Association allows the audit committee to approve, without the need for approval from the Board of Directors. If such transactions are extraordinary transactions (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company s profitability, assets or liabilities), in addition to audit committee approval, the transaction also must be approved by our Board, and, in certain circumstances, the shareholders of the company at a general meeting. Under the Companies Law, an extraordinary transaction between a public company and a person having control of the company or an extraordinary transaction between a public company and another person, in which a controlling member has a personal interest, must be approved by the audit committee, the Board of Directors and a meeting of the shareholders, provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares voted by shareholders who do not have a personal interest in the matter and who are present at the meeting, are voted in favor of such arrangement (abstentions shall not be included in the total of the votes) or (b) the total number of shares of the shareholders referred to in clause (a) voting against such arrangement does not exceed one percent of the aggregate voting rights of the company.

The Companies Law requires that an Office Holder promptly disclose any direct or indirect personal interest that he or his affiliates may have, and all related material information known to him, in connection with any existing or proposed transaction by the company. If the Office Holder complies with such disclosure requirements, the company may approve the transaction in accordance with the provisions of its articles of association and the Companies Law. Under the Companies Law, if the Office Holder has a personal interest in the transaction, the approval must confirm that the transaction is not adverse to the company s interest.

In most circumstances, the Companies Law restricts Office Holders who have a personal interest in a matter which is considered at a meeting of the board or the audit committee from being present at such meeting, participating in the discussions or voting on any such matter.

For information concerning the direct and indirect personal interests of certain of our Office Holders and principal shareholders in certain transactions, see Item 7. Major Shareholders and Related Party Transactions.

Duty of a Shareholder

Under the Companies Law, a shareholder has a general duty to act in good faith towards the company and other shareholders and refrain from improperly exploiting his power in the company, particularly when voting in the general meeting of shareholders on (a) any amendment to the articles of association, (b) an increase of the company s authorized share capital, (c) a merger or (d) approval of transactions with affiliates which require shareholder approval. In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint an office holder in the company, is under a duty to act in fairness towards the company.

Indemnification

Our Articles of Association provide that Partner may indemnify an officer or director of Partner to the fullest extent permitted by the law. Without derogating from the foregoing, our Articles of Association specifically provide that Partner may indemnify an officer or director of Partner for liability or expense he incurs or that is imposed upon him as a result of an action or inaction by him (or together with other officers of Partner) in his capacity as an officer or director of Partner as follows:

(1) any financial liability incurred by, or imposed upon the officer or director in favor of a third party in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by the court; or

(2) reasonable litigation expenses, including legal fees, incurred by the officer or director or which he was ordered to pay by the court:

  (a) in the context of proceedings filed against him by Partner or on Partner s behalf or by a third party, or

  (b) in a criminal proceeding in which he was acquitted, or

  (c) in a criminal proceeding in which he was convicted of a felony which does not require a finding of criminal intent.

(3) reasonable litigation expenses, including legal fees, incurred by the officer or director due to such investigation or proceeding conducted against him by an authority authorized to conduct an investigation or proceeding, relating to an offense which does not require criminal intent, within the meaning of the relevant terms in any law, and which:

(a) ended without filing of an indictment against him and without the imposition of a financial liability as a substitute for a criminal proceeding, or

(b) ended without filing of an indictment against him but for which he was subject to a financial liability as a substitute for a criminal proceeding ; or

(4) any other liability or expense in respect of which it is permitted or will be permitted under applicable law to indemnify an officer of Partner.

Our Articles of Association also permit us to undertake in advance to indemnify an officer or director with respect for items (2) and (3) above, or any other matter permitted by law. Our Articles of Association also permit us to undertake in advance to indemnify an officer with respect to item (1) above, provided however, that the undertaking to indemnify is restricted to events which in the opinion of the Board of Directors are anticipated in light of Partner s activities at the time of granting the obligation to indemnify, and is limited to a sum or measurement determined by the Board of Directors to be reasonable in the circumstances. The undertaking to indemnify must specify the events that, in the opinion of the Board of Directors, are expected in light of the Company s actual activity at the time of grant of the indemnification and the sum or measurement that the Board of Directors determines to be reasonable in light of the circumstances. Our Articles of Association also permit us to indemnify an officer or director after the fact for all kinds of events, subject to applicable law.

In no event may Partner indemnify an officer or director for:

(1) a breach of the duty of loyalty toward Partner, unless the officer or director acted in good faith and had reasonable grounds to assume that the action would not harm Partner;

(2) a breach of the duty of care if it was made intentionally or recklessly;

(3) an intentional act which was done to unlawfully yield a personal profit; or

(4) criminal fine or penalty imposed on him.

We have undertaken to indemnify our directors and officers, subject to certain conditions for (a) any financial obligation that is incurred by or imposed on such person in accordance with a judgment, including a judgment given in a settlement or judgment of an arbitration approved by the court, provided that such liability pertains to one or more events specified in the letter of indemnification, which in the opinion of the board of directors are anticipated in light of Partner s activities at the time of granting the indemnification undertaking; (b) reasonable litigation expenses, including legal fees, that were incurred by such person or which the court obligates such person to pay in the context of a proceeding against such person that has been filed by us, on our behalf or by a third party, or in a criminal proceeding in which such person is acquitted or convicted, for an offense that does not require a finding of criminal intent; and (c) reasonable litigation expenses, including legal fees that were incurred by such person due to an investigation or proceeding conducted against such person by an authority authorized to conduct such investigation or proceeding and which has ended without the filing of an indictment and without the imposition of a financial liability as a substitute for a criminal proceeding, or which ended without the filing of an indictment but with the imposition of financial liability as a substitute for a criminal proceeding relating to an offense that does not require criminal intent. The aggregate indemnification amount payable by us to all of the officers and directors pursuant to all letters of indemnification issued or that may be issued in the future shall not exceed the higher of (i) 25% of shareholders equity and (ii) 25% of market capitalization, each measured at the time of indemnification.

We are participating in a new directors and officers liability insurance policy procured by our controlling shareholder, Hutchison Telecom, insuring our directors and officers liability and our undertaking to indemnify them, in respect of certain matters permitted by the Companies Law. The new policy includes coverage in respect of our directors and officers liability. The new policy, which replaced as of November 1, 2005 our previous directors and officers liability insurance, provides for coverage in an aggregate amount for Hutchison Telecom and its participating subsidiaries, including Partner, of up to US$100 million. Our participation in the annual premium for the new policy is expected to be substantially lower than the annual premium we paid for our previous policy which was approximately US$2 million, should Hutchison Telecom or its affiliates decide to debit their subsidiaries of their respective share of the premium paid for the new policy.

6D. Employees

At December 31, 2005, we had 3,403 employees on full time equivalent basis, compared with 3,164 at December 31, 2004 and 2,769 at December 31, 2003. The number of employees for 2005, 2004, and 2003, divided by their activity, was as follows:

	December 31		
	2005	2004	2003
Customer service	1,971	1,634	1,565
Engineering	442	416	410
Sales and sales support	438	512	206
Information technology	114	113	118
Marketing and Content	103	99	135
Finance	71	71	72
Human resources and Security and Fraud Prevention	89	90	68
Remaining operations	17		