PARTNER COMMUNICATIONS CO LTD
Form 20-F
April 27, 2009

As filed with the Securities and Exchange Commission on April 27, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to__________

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report __________

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)

Roly Klinger

ExecutiveOffices@orange.co.il

(Name, Telephone, E-mail and/or facsimile Number and Address of Company Contact Person)

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

Title of each class	**Name of each exchange on which registered**
American Depositary Shares, each representing one ordinary share, nominal value NIS 0.01 per share	The NASDAQ Global Market
Ordinary Shares, nominal value NIS 0.01 per share*	The NASDAQ Global Market

* 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 Registered Pursuant to Section 12(g) of the Act:

NONE

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 153,419,394

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

YES x NO o

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 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 x Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

ITEM 17 o ITEM 18 o

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

YES o NO x

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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 its wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., Partner Land-Line Communications Solutions LLP and Partner Business 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 exchange rate on April 21 2009, of NIS 4.214 = 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. Words such as believe, anticipate, expect, intend, seek, will, plan, could, may, project, goal, target often identify 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 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.

We have based these forward-looking statements on our current knowledge and our present beliefs and expectations regarding possible future events. These forward-looking statements are subject to risks, uncertainties and assumptions about Partner, consumer habits and preferences in cellular telephone usage, trends in the Israeli telecommunications industry in general, the impact of current global economic conditions and possible regulatory and legal developments. For a description of some of the risks we face, see Item 3D. Key Information Risk Factors, Item 4. Information on the Company , Item 5. Operating and Financial Review and Prospects , Item 8A. Consolidated Financial Statements and Other Financial Information Legal and Administrative Proceedings and Item 11. Quantitative and Qualitative Disclosures about Market Risk . In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur, and actual results may differ materially from the results anticipated. 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, 2008, prepared in accordance with US GAAP. The selected financial data for each of the years in the three-year period ended December 31, 2008, and at December 31, 2008 and 2007, 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, 2005 and 2004, and at December 31, 2006, 2005 and 2004, 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,					
	2004	**2005**	**2006***	**2007***	**2008**	**2008**
	New Israeli Shekels in thousands (except per share data)					US$ in thousands (1)
Statement of Operations Data						
Revenues, net						
Services	4,615,781	4,619,932	5,027,310	5,328,739	5,573,244	1,322,554
Equipment	524,956	503,007	579,401	784,905	756,306	179,475
	5,140,737	5,122,939	5,606,711	6,113,644	6,329,550	1,502,029
Cost of revenues						
Services	2,885,077	3,022,480	3,088,564	3,090,155	3,235,797	767,868
Equipment	729,937	743,872	811,760	1,001,488	843,327	200,125
	3,615,014	3,766,352	3,900,324	4,091,643	4,079,124	967,993
Gross profit	1,525,723	1,356,587	1,706,387	2,022,001	2,250,426	534,036
Selling and marketing Expenses	325,244	272,900	308,499	392,099	389,289	92,380
General and administrative Expenses	181,133	180,781	184,072	230,937	255,939	60,735
Operating profit	1,019,346	902,906	1,213,816	1,398,965	1,605,198	380,920
Financial expenses, net	260,545	345,448	161,866	120,762	157,939	37,480
Loss on impairment of investments in non-marketable securities	-	-	-	-	-	-

	Year ended December 31,					
Income before tax	758,801	557,458	1,051,950	1,278,203	1,447,259	343,441
Tax expenses	287,248	202,898	370,675	338,417	395,780	93,920
Income before cumulative effect of a change in accounting Principles	471,553	354,560	681,275	939,786	1,051,479	249,520
Cumulative effect, at beginning of year, of a change in accounting Principles	-	-	1,012	-	-	-
Net income for the year	471,553	354,560	682,287	939,786	1,051,479	249,520

(*) We reclassified certain overhead costs, and also gains/losses in our severance pay funds, to financial expenses, net, when preparing our consolidated financial statements for the year ended December 31, 2008. In order to provide comparability, we have performed similar reclassifications in our consolidated financial statements, as set forth in this annual report, for the years ended December 31, 2007 and 2006. However, the reclassifications had no material effect.

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	Year ended December 31,					
	2004	**2005**	**2006***	**2007***	**2008**	**2008**
	New Israeli Shekels in thousands (except share and per share data)					**US$ in thousands (except share and per share data) (1)**
Earnings per ordinary share and per ADS						
Basic:						
Before cumulative effect	2.57	2.19	4.43	6.01	6.77	1.61
Cumulative effect	-	-	0.01	-	-	-
	2.57	2.19	4.44	6.01	6.77	1.61
Diluted:						
Before cumulative effect	2.56	2.17	4.40	5.96	6.73	1.60
Cumulative effect	-	-	0.01	-	-	-
	2.56	2.17	4.41	5.96	6.73	1.60

	Year ended December 31,					
Weighted average number of shares Outstanding						
Basic:	183,389,383	161,711,125	153,633,758	156,414,684	155,349,784	155,349,784
Diluted:	184,108,917	163,617,272	154,677,685	157,787,009	156,347,843	156,347,843
Other Financial Data						
Capital expenditures, net	600,944	486,421	487,946	469,149	444,553	105,494
EBITDA(2)	1,575,996	1,568,616	1,845,531	2,009,113	2,256,622	535,506
Dividend per share (3)	-	1.22	2.63	4.77	5.45	1.29
Statement of Cash Flow Data						
Net cash provided by operating activities	1,272,802	1,006,324	1,216,291	1,445,681	1,839,097	436,425
Net cash (used in) investing activities	(673,616)	(546,692)	(441,508)	(529,486)	(530,828)	(125,968)
Net cash provided by (used in) financing activities	(598,349)	(460,235)	(701,244)	(845,646)	(1,272,691)	(302,015)
Balance Sheet Data (at year end)						
Current assets	1,057,148	1,170,976	1,274,350	1,520,624	1,541,654	365,841
Investments and long-term receivables	165,815	264,456	355,489	535,421	499,385	118,506
Fixed assets, net	1,843,182	1,768,895	1,747,459	1,727,662	1,756,231	416,761
License and deferred charges, net	1,325,592	1,321,167	1,247,084	1,153,926	1,060,503	251,662
Deferred income taxes	94,442	86,505	76,139	93,745	109,766	26,048
Total assets	4,486,179	4,611,999	4,700,521	5,031,378	4,967,539	1,178,818
Current liabilities (4)	859,741	986,995	1,027,841	1,156,818	1,733,759	411,428
Long-term liabilities (4)	2,039,363	2,809,653	2,418,213	2,219,088	1,794,473	425,836
Total liabilities	2,899,104	3,796,648	3,446,054	3,375,906	3,528,232	837,264
Shareholders' equity	1,587,075	815,351	1,254,467	1,655,472	1,439,307	341,554

	Year ended December 31,					
Total liabilities and shareholders' equity	4,486,179	4,611,999	4,700,521	5,031,378	4,967,539	1,178,818

(*) We reclassified certain overhead costs, and also gains/losses in our severance pay funds, to financial expenses, net, when preparing our consolidated financial statements for the year ended December 31, 2008. In order to provide comparability, we have performed similar reclassifications in our consolidated financial statements, as set forth in this annual report, for the years ended December 31, 2007 and 2006. However, the reclassifications had no material effect.

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(1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on April 21, 2009, of NIS 4.214 = US$1.00 as published by the Bank of Israel, unless otherwise specified. See Item 3A. Key Information Selected Financial Data Exchange Rate Data .

(2) EBITDA is a non-GAAP financial measure that represents earnings 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. For a reconciliation of EBITDA to Operating Cash flow, see below.

(3) The dividend per share was calculated in respect of the period for which it was announced.

(4) See Notes 4, 5, and 6 to our consolidated financial statements for information regarding long-term liabilities and current maturities of long-term bank loans.

	Year ended December 31,					
	2004	**2005**	**2006***	**2007***	**2008**	**2008**
	New Israeli Shekels in thousands					**US $ in thousands (1)**
Reconciliation Between Operating Cashflow and EBITDA						
Net cash provided by operating activities	1,271,350	1,009,382	1,216,291	1,445,681	1,839,097	436,425
Liability for employee rights upon retirement	(16,302)	(9,430)	(11,142)	(18,580)	(15,764)	(3,741)
Accrued interest, exchange and linkage differences on long-term liabilities	10,258	(108,411)	4,646	(59,980)	(94,093)	(22,329)
Amount carried to deferred charges	-	13,820	-	-	-	-
Gain (loss) from assets in respect of severance pay funds	1,452	(3,058)	4,576	5,555	(16,215)	(3,848)
Increase (Decrease) in accounts receivable:						
Trade	225,860	262,262	254,748	328,824	(47,218)	(11,205)
Other (**)	13,615	26,970	311,246	2,036	(12,715)	(3,017)

Decrease (Increase) in accounts payable

	Year ended December 31,					
and accruals:						
Trade	(135,600)	(112,857)	58,568	(100,817)	(9,576)	(2,272)
Related parties	-	(10,513)	(5,317)	12,425	(1,049)	(249)
Other (**)	(41,613)	75,884	(49,923)	275,732	475,851	112,921
Decrease (Increase) in inventories	(1,205)	107,667	(87,009)	9,299	(8,102)	(1,923)
Decrease (Increase) in asset retirement obligation	(464)	92	(1,069)	(528)	(673)	(160)
Financial expenses (***)	247,193	319,864	149,916	109,466	147,079	(34,902)
EBITDA	1,574,544	1,571,672	1,845,531	2,009,113	2,256,622	535,506

(1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on April 21, 2009, of NIS 4.214 = 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 reclassified certain overhead costs, and also gains/losses in our severance pay funds to financial expenses, net, when preparing our consolidated financial statements for the year ended December 31, 2008. In order to provide comparability, we have performed similar reclassifications in our consolidated financial statements, as set forth in this annual report, for the years ended December 31, 2007 and 2006. However, the reclassifications had no material effect.

(**) Excluding provision for tax expenses.

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

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	At December 31, 2006	2007	2008
Industry Data			
Estimated population of Israel (in millions) (1)	7.1	7.2	7.4
Estimated Israeli cellular telephone subscribers (in millions) (2)	8.4	9.0	9.2
Estimated Israeli cellular telephone penetration (3)	118%	125%	125%

	Year ended December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
Partner Data					
Subscribers (000's) (at period end) (4)	2,340	2,529	2,668	2,860	2,898
Pre-paid subscribers (000's) (at period end) (4)	700	754	781	792	745
Post-paid subscribers (000's) (at period end) (4)	1,640	1,775	1,887	2,068	2,153
Share of total Israeli subscribers (at period end) (5)	32.4%	32.2%	31.7%	31.7%	31.4%
Average monthly usage per subscriber ("MOU") (mins.) (6)	286	294	311	336	365
Average monthly revenue per subscriber including in roaming ("ARPU") (NIS) (7)	170	156	158	158	159
Churn rate (8)	12.0%	13.6%	15.6%	15.0%	17.8%
Estimated coverage of Israeli population (at period end) (9)	97%	97%	97%	97%	98%

	Year ended December 31,				
Number of employees (full time equivalent) (at period end) (10)	3,164	3,403	3,714	4,130	4,671

(1) The population estimates are as published by the Central Bureau of Statistics in Israel as of December 31, 2008.

(2) We have estimated the total number of Israeli cellular telephone subscribers from information contained in published reports issued by, and public statements made by, Pelephone Communications Ltd. (Pelephone) and Cellcom Israel Ltd. (Cellcom), or by their shareholders, and from Partner subscriber data at December 31, 2006, 2007 and 2008.

(3) Total number of estimated Israeli cellular telephone subscribers expressed as a percentage of the estimated population of Israel. The total number of estimated cellular telephone subscribers 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 cellular telephone industry, we use the term subscriber , unless the context otherwise requires, to indicate a telephone or a data or video device, rather than either a bill-paying network customer, who may have a number of telephones connected to the network, or a cellular telephone user who may share a single telephone with a number of other users. Subscriber includes our pre-paid customers. As of 2008, a prepaid subscriber is recognized as such only following the actual use of his prepaid SIM card. Based on this new policy in January 2008, we reduced the number of reported prepaid subscribers by approximately 61,000. Applying this policy retroactively, the increase in subscribers in 2008 was 3.5%.

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 in roaming 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.

(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. This includes subscribers who have generated minute revenues only from incoming calls directed to their voice mail. Involuntary churn includes disconnections due to non-payment of bills or suspected fraudulent use, and voluntary churn includes disconnections due to subscribers terminating their use of our services.

(9) 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 network site. According to these coverage results, we estimate the population serviced by our network and divide this by the estimated total population of Israel. Population estimates are published by the Central Bureau of Statistics in Israel.

(10) 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.

	Year ended December 31,				
	2004	2005	2006	2007	2008
Average(1)	4.480	4.485	4.457	4.108	3.588
High	4.634	4.741	4.725	4.342	4.022
Low	4.308	4.299	4.176	3.830	3.230
End of period	4.308	4.603	4.225	3.846	3.802

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

	October 2008	November 2008	December 2008	January 2009	February 2009	March 2009	April 2009 (through April 21)
High	3.879	4.022	3.990	4.065	4.191	4.247	4.214
Low	3.465	3.752	3.677	3.783	4.012	4.024	4.125

On April 21, 2009, the exchange rate was NIS 4.214 per US$1.00 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

You should carefully consider the risks described below and the other information in the report. Depending on the extent to which any of the following risks materializes, our business, financial condition, cash flow or results of operations could suffer, and the market price of our shares may be negatively affected. The risks below are not the only ones we face, and other risks currently not affecting our business or industry, or which are currently deemed insignificant, may arise.

RISKS RELATING TO THE REGULATION OF OUR INDUSTRY

We operate in a highly regulated telecommunications market which limits our flexibility in managing our business and may materially and adversely affect our business and results of operations.

We are subject to government regulation regarding a broad range of issues in the telecommunications industry, such as roaming charges, interconnect tariffs and other billing and customer service matters; the construction and maintenance of antennas and other network infrastructure; providing infrastructure access to existing or new telecommunications services providers; frequency allocation; limitations or other constraints on the services and products that we may sell; the terms and conditions of our subscriber agreements; and obligations under our operating license. In addition, the Ministry of Communications has announced its intention to increase competition in the cellular market by, among other measures, providing Mobile Virtual Network Operator (MVNO) licenses, Worldwide Interoperability for Microwave Access (WiMAX) licenses and/or other licenses, starting in 2009, for the use of our cellular network by other telecommunications services providers using competing or complementary technologies, such as Voice Over Broadband over cellular (VoBoC).

As further described below, these regulations impose substantial limitations on our flexibility in managing our business, may limit our ability to compete by, among other measures, limiting our ability to develop our network, or preferring new and/or small competitors in the allocation of new frequencies, including those designated for the next generation of cellular services, and may increase our costs, decrease our revenues and reduce our ability to expand our business. As a result, industry regulation has had in the past, and may in the future have, a material adverse effect on our business and results of operations. In addition, new laws, regulations or government policies, or changes in current regulations, may be adopted or implemented in a manner which damages our business and operating results, and announcements by the government, telecommunications operators or others of changes or other developments in applicable regulations may have a negative impact on the market value of our shares. For information regarding the principal regulations and regulatory developments affecting our business, see Item 4B. Business Overview Regulation .

Furthermore, defending ourselves against regulatory violations alleged by state authorities or consumers has required, and may in the future require, substantial financial and management resources. We may not always be successful in our defense, and should we be found in violation of these regulations, we and our management may be subject to civil or criminal penalties, including the loss of our operating license. For information regarding on-going litigation or proceedings, see Item 8A. Consolidated Financial Statements and Other Financial Information Legal and Administrative Proceedings .

Recent and potential future regulation and negotiation of roaming tariffs, both within Israel and elsewhere, may increase our roaming expenses and prevent us from raising our tariffs. If we cannot obtain or maintain favorable roaming arrangements, our services may be less attractive or less profitable.

The Ministry of Communications has declared its intention to evaluate roaming charges and, since 2006, and more recently in November 2008 and February 2009, has requested us to provide information regarding our roaming services. In addition, in August 2008 the government instructed the Ministry of Communications together with other ministries to negotiate a reduction of inbound and outbound roaming tariffs with the European Union (EU) and/or members of the EU or countries frequently visited by Israelis, and to consider other tools for reducing roaming charges. As a result of the Ministry of Communications evaluation, new regulations may be implemented that would limit fees charged by Israeli cellular companies for calls made by foreign network operators subscribers while in Israel using our network, as well as for calls made by our own subscribers using their handsets abroad.

Following European regulation of roaming tariffs in July 2007, which reduced tariffs for calls made by members of the European Union among themselves, EU member operators have raised roaming tariffs for calls to and from non-EU member operators, resulting in higher roaming tariffs for our subscribers.

Because we consider roaming charges to be a significant source of revenue and profits, if roaming tariffs are reduced as a result of the proposed negotiations or otherwise, if additional EU member operators raise their tariffs, or if we are not able to raise our tariffs or otherwise compensate for possibly higher roaming expenses, this could adversely affect our profitability and results of operations.

We rely on agreements to provide roaming capability to our subscribers in many areas outside Israel. However, we cannot control the quality of the service that other telecommunication companies provide, and it may be inferior to our quality of service. Equally, our subscribers may not be able to use some of the advanced features that they enjoy when making calls on our network.

Some of our competitors may be able to obtain lower roaming rates than we obtain because they may have larger call volumes, or because of their affiliations with other international cellular operators. Competition is expected to intensify once Pelephone begins providing a significant volume of roaming services through its new UMTS system. We are also subject to competition from service providers that provide alternative roaming solutions. These service providers use alternative technologies that bypass the existing method of providing roaming services. Because these alternative roaming solutions have only recently become available, we cannot yet judge the extent to which they will intensify competition.

If our competitors providers can deliver a higher quality or a more cost effective roaming service, then subscribers may migrate to those competitors and our results of operations could be adversely affected. Further, we may not be able to compel providers to participate in our technology migration and enhancement strategies. As a result, our ability to implement technological innovations could be adversely affected if these overseas providers are unable or unwilling to cooperate with the further development of our network or if they cease to provide services comparable to those we offer on our network.

We have had difficulties obtaining some of the building and environmental permits required for the erection and operation of our network sites, and some building and environmental permits have not been applied for. These difficulties could have an adverse effect on the coverage, quality and capacity of our network. Operating network sites without building or other required permits may result in criminal or civil liability to us or to our officers and directors.

Our ability to maintain and improve the extent, quality and capacity of our network coverage depends in part on our ability to obtain appropriate sites and approvals to install our network infrastructure, including network sites. The erection and operation of most of these network sites require building permits from local or regional planning and building authorities, as well as a number of additional permits from other governmental and regulatory authorities. In addition, as part of our UMTS network build-out, we are erecting additional network sites and making modifications to our existing network sites, for which we may be required to obtain new consents and approvals.

For the reasons described in further detail below, we have had difficulties obtaining some of the building and environmental permits required for the erection and operation of our network sites. As of December 31, 2008, less than 10% of our network sites were operating without local building permits or applicable exemptions. A portion of these sites are microsites whose removal or repositioning would involve relatively low costs and little change in our network capacity.

Network site operation without required permits has in some cases resulted in the filing of criminal charges and civil proceedings against us and our officers and directors, and monetary penalties against the Company, as well as demolition orders. See Item 8A. Consolidated Financial Statements and Other Financial Information Legal and Administrative Proceedings . In the future, we may face additional demolition orders, monetary penalties and criminal charges. The prosecutor s office has set up a national unit to enforce planning and building laws. The unit has stiffened the punishments regarding violations of planning and building laws, particularly against commercial companies and its directors. If we continue to experience difficulty in obtaining approvals for the erection and operation of network sites and other network infrastructure, this 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. In addition, as we grow our subscriber base and seek to improve the range and quality of our services, we need to further expand our network, and difficulties in obtaining required permits may delay, increase the costs or prevent us from achieving these goals in full. 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.

Uncertainties under National Building Plan 36. Since June 2002, following the approval of the National Building Plan 36 (the Plan), which regulates network site construction and operation, building permits for our network sites (where required) have been issued in reliance on the Plan. Recently, several local planning and building authorities questioned the ability of Israeli cellular operators to receive building permits, in reliance on the Plan, for network sites operating in frequencies not specifically detailed in the frequency charts attached to the Plan. In a number of cases, these authorities have refused to grant building permits for 3G network sites, claiming that 3G frequencies are not included in the Plan. There has been no judicial ruling at this stage. However a class action was filed against us as well as other cellular operators with a request for the revocation of the building permits given to the 3G network sites.

The Plan is in the process of being changed. Current proposed changes impose additional restrictions and/or requirements on the construction and operation of network sites and could, if adopted, harm our ability to construct new network sites, make the process of obtaining building permits for the construction and operation of network sites more cumbersome and costly and may delay the future deployment of our network.

Uncertainties regarding the validity of exemptions for wireless access devices. In addition, we have set up several hundred small communications devices, called wireless access devices, pursuant to a provision in the Communications Law (Telecommunications and Broadcasting), 1982, which exempts such devices from the need to obtain a building permit. A claim was raised that the exemption does not apply to cellular communications devices and the matter reached first instance courts a number of times, resulting in conflicting decisions. This claim is included in an application to certify a class action filed against the three principal cellular telephone operators. Recently, a district court ruling adopted the position that the exemption does not apply to wireless access devices. We, as well as our competitors, filed a request to appeal this ruling to the Supreme Court. In addition, recently a district court ruled against one of our competitors and adopted the position that a rooftop for wireless access device installation must be the highest rooftop of the building and cannot be located at the same level as a residence or other building that is regularly frequented by people. We currently have wireless access devices that do not fulfill this ruling. In addition, in May 2008, the Attorney General filed an opinion regarding this matter stating that the exemption does apply to wireless radio access devices under certain conditions and recommended that an inter-ministry committee be established to examine the appropriateness of future applications of the exemption to wireless access devices given the changed circumstances since the enactment of the exemption. In July 2008 a petition was filed with the High Court of Justice against the Attorney General s opinion seeking to annul the Attorney General s opinion, claiming that the wireless access devices are not meant for cellular devices. The Supreme Court has not yet ruled on this matter. Should a definitive judgment hold that the exemption does not apply to cellular devices, we may be required to remove the existing devices and would not be able to install new devices on the basis of the exemption. As a result, our network capacity would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

See also Difficulties in obtaining environmental permits below for further risks in connection with wireless access devices.

Uncertainties regarding requirements for repeaters and other small devices. We, like the other cellular 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 cellular telephone operators, we have not requested permits under the Planning and Building Law for the repeaters. We have received an approval to connect the repeaters to our communications network, however, from the Ministry of Communications and have received from the Ministry of the Environment permit types for all our repeaters. 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.

In addition, we construct and operate microwave links as part of our transmission network. The various types of microwave links receive permits from the Ministry of the Environment in respect of their radiation level. Based on an exemption in the Telecommunications Law, we believe that building permits are not required for the installation of most of these microwave links on rooftops, but to the best of our knowledge, there is not yet a determinative ruling on this issue by the Israeli courts. If the courts determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability to obtain environmental permits for these sites and to deploy additional microwave links, and could hinder the coverage, quality and capacity of our transmission network and our ability to continue to market our transmission services effectively.

Difficulties in obtaining environmental permits. The Non-Ionizing Radiation law, 2006, most of which entered into effect on January 1, 2007, defines the various powers of the Ministry of the Environment as they relate, among other matters, to the granting of permits for network sites. Pursuant to this law, the Ministry of the Environment will grant an operating permit for a site only if a building permit has been properly obtained for such site. In October 2007, the Commissioner of Environmental Protection took the position that he will not grant and/or renew operating permits to wireless access devices, where the local planning and building committee s engineer objected to our reliance upon the exemption for wireless access devices described above. Operating a network site or a facility without an operating permit could subject us and our officers and directors to criminal, administrative and civil liability.

In connection with some building permits, we may also be required to indemnify planning committees in respect of claims against them relating to the depreciation of property values that result from the granting of permits for network sites.

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. Under the Non-Ionizing Radiation Law, 2006, the National Council for Planning and Building requires indemnification undertakings from cellular companies as a precondition for obtaining a building permit for new or existing network sites. 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 reductions in property values. We do not know when the National Building Plan 36 will be amended, or whether it will require full indemnification.

As of December 31, 2008, we have provided local authorities with 307 indemnification undertakings. These 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, if we are required to make substantial payments in connection therewith.

In addition, the requirement to provide indemnification in connection with new building permits may impede our ability to obtain building permits for existing network sites or to expand our network with the erection of new network sites. The indemnification requirement may also cause us to change the location of our network sites to less suitable locations or to dismantle existing network sites, which may have an adverse effect on the extent, quality and capacity of our network coverage.

Two further developments regarding this issue may also have a material adverse effect on our operating results:

There have been a number of attempts by local planning committees to join cellular telephone operators as defendants in claims against such committees for the depreciation in value of nearby properties as a result of the erection of network sites. If the local planning committees succeed in including cellular 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.

In February 2007, the Israeli Minister of Interior Affairs extended the limitation period within which depreciation claims may be brought under the Planning and Building Law from three years from approval of the building plan to the later of one year from receiving a building permit for a network site under National Building Plan 36 and six months from the construction of a network site. The Minister retains the general authority to extend such period further. This extension of the limitation period increases our potential exposure to depreciation claims.

We may be required in the future to offer access to our network infrastructure to other operators, which may enable new competitors, such as MVNOs, to enter the market, reduce our ability to provide services to our subscribers and negatively affect our operating results.

Under both the Communications Law (Telecommunications and Broadcasting), 1982, and our operating license, 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. The Grunau Committee, a public commission appointed by the Ministry of Communications to review various issues in the Israeli communications market, published its recommendations in March 2008, and recommended accelerating the regulatory process required for the entry of MVNOs into the mobile telecommunications market. In August 2008, the Ministry of Communications adopted most of the committee s recommendations and in January 2009 began conducting hearings regarding the draft MVNO license and regulations. See Item 4B. Business Overview Regulation Regulatory Developments .

We believe that providing access to our network would require additional statutory and regulatory action to establish inter-operator relationships, including with respect to rates. However, if such action is taken, access to our network and our competitors networks 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 and additional conditions for the usage of our infrastructure, the Ministry of Communications may impose tariffs as well as the terms and conditions of such usage. If the Ministry of Communications sets those tariffs too low, this may adversely affect our financial condition. In addition, operators, such as MVNOs, might offer mobile telecommunication services to our current customers at prices that are lower than our prices, thereby reducing our market share and/or causing price erosion and adversely affecting our financial results and condition.

The Ministry of Communications may require us to terminate the use of certain spectrum or to share with another operator some of the spectrum we are currently using on an exclusive basis, or to pay additional fees for the use of our current spectrum. These requirements, should they become effective, may adversely affect our network quality and capacity as well as our results of operations.

The Ministry of Communications is conducting hearings regarding our use of spectrum which was initially allocated for the use of a Palestinian mobile operator in the Palestinian Authority administered areas of the West Bank and Gaza Strip (the Palestinian Administered Areas). Our use of this spectrum is based on an agreement with the Palestinian mobile operator. The agreement was endorsed by both the Israeli and the Palestinian Ministries of Communications.

Although we believe that we are entitled to use this spectrum and that we are paying the required consideration for the use of all our existing spectrum, including this spectrum, the result of such a hearing might be a requirement by the Ministry of Communications to terminate the use of that spectrum and/or to pay an additional substantial fee for the use made of that spectrum.

In addition, there are demands from different third parties to rearrange the current spectrum allocation in Israel and the Palestinian Administered Areas, particularly the 900 Mhz frequencies, and also to allocate additional frequencies for the use of other mobile operators in the Palestinian Administered Areas. There are also demands to allocate additional frequencies for mobile operators, including WiMAX operators, which we may need for our next generation GSM technology. Some of these frequencies have already been allocated to third parties. If such frequencies are not available to us in the future, it may harm our ability to migrate to the next generation of GSM technology, such as Long Term Evolution (LTE).

Also, if such a frequency rearrangement takes place, then the spectrum that has been allocated to us for use on an exclusive basis may also be allocated to another operator in the Palestinian Administered Areas, or we may be required to terminate the use of part of our existing spectrum, which might be replaced by an allocation of a new band of spectrum that may be of inferior quality.

If we were to be prevented from using a portion of our existing spectrum, or if alternative equivalent spectrum are not allocated to us, or if we were to be required to share some of our spectrum or to pay significant additional amounts for use of our existing spectrum, this could have a material adverse effect on our operations and profitability.

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

We conduct our operations primarily pursuant to a general mobile telephone 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 the Ministry of Communications and us. As indicated above, difficulties in connection with obtaining building and other permits required for our network infrastructure may prevent us from achieving or maintaining the network coverage and quality requirements contained in our license . 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. In addition, the Ministry of Communications is authorized to levy significant fines on us for breaches of our license which could have a material adverse effect on our financial condition or results of operations.

Our business and operating results have been adversely affected by reductions in call and SMS interconnect tariffs imposed by the Ministry of Communications, and may be further adversely affected by future regulatory developments in these areas. We may be subject to sanctions or claims in connection with these regulatory developments.

The Ministry of Communications has lowered mandated call interconnect tariffs and SMS interconnect tariffs from the beginning of 2005 to March 2008. Although we have implemented cost-cutting measures as well as price increases and repackaging of our tariff plans in response to these tariff reductions, the regulatory changes imposing interconnect tariff reductions negatively impacted our revenues and profits.

Interconnect tariffs further possible regulatory developments. The Ministry of Communications may further examine interconnect tariffs and as a result may further reduce these tariffs, which may adversely affect our revenues and profits. A publicly appointed commission (the Grunau Committee) recommended the further examination of this issue, and, in addition, the Ministry of Communications has indicated that it intends to start implementing a process to unify rates for calls terminating both on and off an operator s network, which may limit or eliminate our ability to pass on to our customers the charges we bear when our customers calls must be transmitted into the network of another telecommunications services provider in order to reach the intended party. Preliminary hearings with cellular operators in Israel on this matter commenced in August 2005, but have been suspended and might be resumed in the future. This change in regulations, if implemented, could adversely affect our revenues and profits.

SMS tariffs further possible regulatory developments. In 2005, our license was amended to regulate charging for SMS messages sent outside our network. Due to technological difficulties encountered by our competitors and us in fully complying with this amendment, we may face claims, under one interpretation of the amendment, of not having implemented the amendment with respect to SMS messages sent to subscribers of two other Israeli cellular operators. We have notified the Ministry of Communications of the difficulty. The Ministry has proposed an amendment to our license, but we are uncertain as to the effectiveness of the amendment in resolving the difficulty. Until such time as the cellular operators develop the necessary interfaces or our license is amended, we may be exposed, to substantial sanctions and legal claims for violation of our license.

Our mobile telephone license imposes certain obligations on our shareholders and restrictions on who can own our shares. Ensuring compliance with these obligations and restrictions may be outside our control, but if the obligations or restrictions are not respected by our shareholders, we could lose our license.

As with other companies engaged in the telecommunications business in Israel, our license requires that a minimum economic and voting interest in, and other defined means of control of, our company be held by Israeli citizens and residents or entities under their control. If this requirement were not complied with, we could be found to be in breach of our license, even though ensuring compliance with this restriction may be outside our control.

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 must be held by our founding shareholders who are Israeli entities or their approved substitutes. The amendment also requires that these shareholders appoint at least 10% of our Board of Directors. In 2006, our founding Israeli shareholders sold substantially all of their shares in the Company to Israeli institutional investors, who are approved substitutes. See Item 7A. Major Shareholders Significant Changes in Holdings of Major Shareholders During the Past Three Years . If our shareholders do not respect these conditions, we may be found to be in violation of our license.

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 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 result in 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 result in the revocation of our license.

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

In March 2005, the Telecommunications Law was amended to require the Minister of Communications to implement a mobile number portability plan by September 2006. The number portability plan permits subscribers in Israel to change their service provider to another service provider while retaining the same telephone number. The mandated number portability plan was launched by all telecommunications operators in December 2007. As a result of the removal of the barrier to switching operators, all telecommunication operators experienced an increase in customer churn in 2008. Our churn rate increased from 15% in 2007 to 17.8% in 2008. We expect the churn rate to remain higher as a result of both the change in regulations and increased market competition.

In addition, the Ministry of Communications has notified us, as well as the other operators, that it is considering imposing monetary sanctions on relevant telecommunication license holders, including us, in accordance with the Telecommunications Law for alleged violation of the obligation to implement number portability by September 2006. We submitted our position to the Ministry stating that the delay was a result of the Ministry s failure to adequately plan and design the number portability plan. As a result of this dispute, we may be exposed to substantial monetary sanctions and further legal claims.

RISKS RELATING TO OUR BUSINESS OPERATIONS

Actual and alleged health risks related to network sites and the use of mobile telecommunications devices, including handsets, 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 network sites, and some of these studies have been construed as indicating that radiation from wireless phone use causes adverse health effects. Media reports have suggested that radio frequency emissions from network sites, wireless handsets and other mobile telecommunication devices may raise various health concerns. 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 manufacturers 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 repaired handsets.

Several lawsuits have been filed outside 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 sites, handsets and other mobile telecommunications devices, including one lawsuit against us and two other cellular telecommunication companies with respect to cell sites allegedly causing environmental damage. See Item 8A - Financial Information - Legal and Administrative Proceedings . We may be subject to additional future litigation relating to these health concerns.

Recently, a municipal court ruled against one of our competitors, stating that there is no need for the standard burden of proof to prove damages from a cellular network site, and that under certain circumstances it would be sufficient to prove the possibility of damage in order to transfer the burden of proof to the cellular companies. Although we were not a party to this proceeding, such rulings could have an adverse affect on our ability to contend with claims of health damages as a result of the erection of network sites.

The Ministry of Health published in July 2008 recommendations regarding precautionary measures when using cellular handsets. The Ministry of Health indicated that although the findings of an international study on whether cellular phone usage increases the risk of developing certain tumors were not yet finalized, partial results of several of the studies were published, and while these studies did not demonstrate a connection between cellular phone exposure and tumor growth, a relationship between prolonged cellular phone usage and tumor development was observed in some of these studies. These recent studies, as well as the precautionary recommendations published by the Ministry of Health, have increased concerns of the Israeli public.

The perception of increased health risks related to network sites may cause us increased difficulty in obtaining leases for new network site locations or renewing leases for existing locations or otherwise to install mobile telecommunication devices. If it is ever determined that health risks existed or that there was a deviation from radiation standards which would result in a health risk from sites, other telecommunication devices 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 and reduced usage per subscriber. Furthermore, we do not expect to be able to obtain insurance with respect to such liability.

Competition from existing telecommunications providers, and potential changes in the competitive environment and communications technologies, may cause an increase in subscriber acquisition and retention costs or a decrease in tariffs, and may reduce our market share and increase churn rate, all of which could adversely affect our business and results of operations.

Competition with existing cellular service providers. We compete primarily with Cellcom, Pelephone and MIRS, the other cellular telephone network operators in Israel.

Cellcom is an Israeli corporation that is part of the IDB group, a large Israeli holding company which is also active in diversified businesses with holdings in subsidiary companies that operate in many different markets in Israel. Cellcom is also active in the Israeli communications market providing high speed internet, international telephone services and wireline and land-line communications services. Due to the IDB group s strong position in Israel, we believe that in some cases we have experienced and may further experience the loss of business subscribers who are affiliates of the IDB group or do business with the IDB group, and who transfer their cellular business to Cellcom. In 2006, Cellcom expanded its UMTS/ High Speed Downlink Packet Access (HSDPA) and in 2008 launched its High Speed Uplink Packet Access (HSUPA) service, which may increase competition in this market segment.

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Pelephone, which initially was a non-GSM operator, has used CDMA-1x real time technology (RTT), and is an Evolution Data Optimized (EVDO) operator, launched in early 2009 its new UMTS/HSXPA network. Pelephone s new network may strengthen Pelephone s position among the other UMTS operators by offering roaming services and popular handsets.

Introduction of additional UMTS/HSXPA technology may increase the competition level in the mobile market affecting our churn rates, customer retention costs and roaming revenues.

Because of the ease of switching between mobile operators, particularly following the introduction of the number portability plan, we have already faced and may continue to face an increase in our churn rate. Like us, all telecommunication operators experienced an increase in customer churn in 2008. Our churn rate increased from 15% annual churn rate in 2007 to 17.8% in 2008. The increase of our churn rate may require us to increase our customer retention costs in order to retain our subscribers.

We are also subject to competition from service providers that provide alternative roaming solutions. These service providers use alternative technologies that bypass the existing method of providing roaming services. Because these alternative roaming solutions have only recently become available, we cannot yet judge the extent to which they will intensify competition.

Ministry studies to introduce new competitors and enhance competition. In 2007, the Ministry of Communications engaged NERA, an international consulting firm, to review the level of competition in Israel s mobile market and to review whether to allow the entry of new operators, including MVNO operators, into the Israeli telecommunications market. Based on the findings of their review, the Ministry of Communications has begun conducting hearings regarding a draft MVNO license and regulations. In addition, the Ministry of Communications has announced its intention to increase competition in the cellular market by providing WiMAX licenses and/or other licenses starting in 2009 for the use of our cellular network by other telecommunications services providers using competing or complementary technologies, such as Voice Over Broadband over cellular (VoBoC).

In March 2008, the Grunau Committee, a public commission appointed in 2006 by the Ministry of Communications to review various issues in the Israeli communications market, published its recommendations which included: to accelerate the procedures necessary to allow the entry of MVNOs and additional infrastructure-based operators to the mobile market; to publish a WiMAX frequencies tender for mobile use; to examine interconnect fees and further revise them accordingly, during 2009; to regulate charges for cellular-originated international calls and, subject to such regulation, to allow cellular operators to enter the international long distance market; and to prohibit a linkage between a cellular services transaction and a handset purchase transaction. The commission further recommended the unbundling of Bezeq s network to be followed by reducing some of the restrictions with respect to offering integrated packages of services currently imposed on Bezeq and its subsidiaries. In August 2008, the Ministry of Communications adopted most of the recommendations of the Grunau Committee. In addition, the Ministry of Communications is currently conducting a hearing in order to enable Bezeq s subsidiaries to market, together with Bezeq, bundled services that include both Bezeq s services and the subsidiaries services so that both Bezeq as well as its subsidiaries can offer a wide variety of services, such as land-line telephony, mobile telephone, internet and multi channel television, to the public and allow the consumer to acquire all services in one package from a single vendor. See Item 4B. Business Overview-Regulation-Regulatory Developments .

If the Ministry of Communications decides to allow the entry of new operators into the Israeli telecommunications market, or to adopt other measures considered in the studies described above, competitive pressures may increase, which could adversely affect our business and results of operations.

WiMAX licenses. In February 2009, the Ministry of Communications published a policy with regard to WiMAX spectrum licenses for the provision of cellular and land-line services to existing and future communication service providers. The Ministry of Communications also stated that it intended to promote competition in the cellular market by potentially granting preferences to existing telecommunications services providers in this regard. Cellular WiMAX is a competitive technology to HSDPA and LTE, which are the next generation of GSM technologies. Granting WiMAX licenses to new operators or to any of our competitors and not to us might offer them a competitive advantage and adversely affect our business. Furthermore, if the Ministry of Communications allocates to new WiMAX operators frequencies which we may need for our next GSM generation technology, this may impair our ability to compete. Some of these frequencies have already been allocated to third parties. If such frequencies are not available to us in the future, it may harm our ability to migrate to the next generation of GSM technology, such as LTE.

The Ministry of Communications has granted a special license to a few of the new land-line operators to conduct a marketing experiment that will examine the provision of domestic telephony services using VoBoC technology.

Land-line competition. 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, HOT Cable Communication Systems Ltd (HOT), the cable television operator in Israel, and other land-line operators. Bezeq owns 100% of the shares of Pelephone, which, as mentioned above, may enable Pelephone and Bezeq to offer bundled services of land-line, mobile telephone and other telecommunication services, subject to regulatory approval.

Several new operators, including 012 smile communications ltd (012 smile), Netvision 013 Barak (Netvision) and Xfone Communication Ltd (Xfone), entered the land-line market in 2007 and 2008 based on Voice Over Broadband (VoB) services using the infrastructure of Bezeq and HOT to access customers and to provide them with land-line telephony service. Other VoB operators may enter the mobile telecommunications services market in the future and increase the level of competition we face. As a result of these developments in the competitive environment, we may experience increased costs to attract and retain subscribers, and further pressure on tariffs.

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New Business Initiatives. In December 2008 and January 2009, we launched three additional non-cellular business lines: Voice over Broadband (VoB) telephony services, internet service provider (ISP) services and Web VOD (video on demand). 2009 will be the first full year that we operate these services. As expected in new markets, we face new competitors and competition patterns. We may be at a competitive disadvantage relative to operators who may be able to offer bundled services of land-line, mobile telephone, television and other communications services, using their wholly- or partially-owned infrastructure. As a result of these market conditions, we may not meet our business plan for the new lines of business. We may face fierce competition in this area in a manner that will not enable us to establish substantial presence in these businesses.

Telecommunications industry consolidation. The telecommunications market might face consolidation in a manner which potentially decreases our competitive position. Various groups in the Israeli telecommunications market might acquire or build new complementary lines of business in order to provide a full range of telecommunications services packages. We might face difficulties in obtaining the required services and product components, such as last mile access to the customers premises, that are essential to compete with our competitors bundled offerings. There are two major groups in the Israeli telecommunications market that currently operate a wide range of telecommunications services, including mobile, fixed-line, data transmission and internet. One of the groups also offers multichannel pay-TV services and therefore already possesses a full range of telecommunications businesses within the group. Subject to legal restrictions, the group might be able in the future to offer full packages of bundled services. The other telecommunications group may further develop its telecommunications portfolio by acquisitions of additional businesses in order to also be able to offer a complete range of telecommunications services. Such developments could substantially affect our position in the Israeli telecommunications market, in particular, by attracting a broad range of telecommunications subscribers to one or two full-service telecommunications groups, as well as by permitting such a group or groups to apply substantial pressure on market prices for selected sectors. If such developments were to occur, our business and results of operations could be materially adversely affected.

Our subscriber growth rate, and consequently our revenue growth rate, has continued to slow, because Israel s mobile telephone services market is highly penetrated, making it more difficult for us to obtain new subscribers 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 a recent report issued by a research company, at the end of the third quarter of 2008, Israel s mobile telephone market penetration is estimated to be approximately 125%. This includes dormant subscribers as well as subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers. While 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 as well as on our ability to generate higher revenues from existing subscribers.

In the event critical elements of our mobile network are damaged or rendered non-operational, we may not be able to replace them or return them to service quickly and, as a result, we may not be able to provide telecommunications services to a substantial portion of our subscribers for an indeterminate period of time.

Some elements of our mobile network perform critical functions for broad sectors of our network operation, such as switching and data platforms. If such a critical element were damaged due to fire, water, earthquake or some other natural or man-made cause, an entire sector of our network coverage may be rendered non-functioning, which means that we would not be able to provide telecommunications services to a substantial portion of our subscribers. Although we have prepared disaster recovery plans, it is not possible to determine in advance how effective such plans will be, and in particular how quickly we will be able to restore service. In the event we are unable to provide telecommunications services to a substantial portion of our subscribers for an extended period of time, our business and short- and long-term results of operations will be materially negatively affected.

We could be subject to legal claims due to the inability of our information systems to fully support our calling plans.

In order to attract and retain the maximum number of subscribers in our highly competitive market, we design specific calling plans to suit the preferences of various subscriber groups. We require sophisticated information systems to record accurately subscriber usage pursuant to the particular terms of each subscriber s plan, as well as accurate database management and operation of a very large number of calling plans. From time to time, we have detected some discrepancies between certain calling plans and the information processed by our internal information systems, such as applying an incorrect rebate or applying an incorrect tariff to a service, resulting in a higher charge. We have invested substantial resources to refine and improve our information and control systems and ensure that our calling plans are appropriately processed by our information systems. We have also taken steps to remedy the identified discrepancies. Despite our substantial investments, we may experience discrepancies in the future due to the multiplicity of our plans and the scope of the processing tasks. Further, while we invest substantial efforts in monitoring our employees and third-party distributors and dealers that market our services, it is possible that some of our employees, distributors or dealers may offer terms and make (or fail to make) representations to existing and prospective subscribers that do not fully conform to applicable law, our license or the terms of our calling plans. As a result of these discrepancies, we may be subject to subscribers claims, including class action claims, and substantial sanctions for breach of our license that may materially adversely affect our results of operations.

We are exposed to, and currently engaged in, a variety of legal proceedings, including several potential class action lawsuits related primarily to our network infrastructure and consumer claims.

In addition to a number of legal and administrative proceedings arising in the ordinary course of our business, we have been named as defendants in a number of civil and criminal proceedings related to our network infrastructure, which may result in civil liabilities or criminal penalties against us or our officers and directors, and consumer claims regarding, for example, our tariff plans and billing methods, which may result in significant monetary damages and civil penalties. See Item 8. Financial Information Legal and Administrative Proceedings . Plaintiffs in some of these proceedings are seeking certification as class actions and recently, a class was certified in proceedings asserting liability against us (and another Israeli provider of cellular telecommunications services) for actions taken by a third-party content provider, who is also a defendant in this claim, however we do not belive that an adverse judgement against us in connection with such proceedings would have a material affect on our financial condition. Unless and until any of the other outstanding claims is recognized as a class action, we and our legal counsel are unable to evaluate the probability of success of such claim, or the range of potential loss, with any degree of certainty, and therefore no provision has been made.

We are subject to the risk of intellectual property rights claims against us, including in relation to innovations we develop ourselves and the right to use content, including music content, which we have purchased from third parties who present themselves as the owners of the intellectual property rights included in the content, or as the representatives of the owners of the intellectual property, when in fact it may not be the case. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages or may be required to obtain licenses for the infringing product or service. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be forced to stop using or selling the products and services, which could adversely affect our ability to provide certain services and products.

The telecommunications industry is subject to rapid and significant changes in technology and industry structure which could reduce demand for 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, broadband wireless access services, voice over Internet Protocol services, wireless fidelity (Wi-Fi) technologies, WiMAX, VoBoC, and other communications technologies that have the technical capability to handle mobile telephone calls and to interconnect with the land-line telephone network and with internet networks. 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, on the viability or competitiveness of our network cannot be accurately predicted. The technologies we employ or intend to employ may become obsolete or subject to competition from new technologies in the future, and competition from new technologies in the future may have a material adverse impact on our business and results of operations.

Moreover, global equipment vendors and internet providers have expressed their interest in penetrating the mobile industry and strengthening their position along the value chain. They intend to provide direct access to the end-user to a wide variety of applications and services. Such a change might adversely change our competitive position and increase the dominance of those new providers at the expense of cellular service providers. Changes in the industry value chain structure might result in an increase in our expenses as well as a decrease in our revenue generated from those services.

Operating a cellular 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 cellular 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 from these activities in the past, and we may suffer from them in the future. The financial impact of fraudulent activities that have occurred in the past has not been material. However, we cannot assure you that should fraudulent activities occur in the future, they 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 land-line 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 cellular telephone services depends upon our ability to interconnect with the telecommunications networks of existing and future land-line, cellular telephone and international operators in Israel in order to complete calls between our customers and parties on the land-line or other cellular telephone networks. All land-line, cellular 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 cellular telephone network operators in Israel, and with Israeli international operators, and in July 2008, we signed an agreement with Bezeq for the provision of land-line transmission services which replaces an earlier transmission agreement. As regards interconnection to Bezeq s land-line network, we are currently operating without any formal agreements with Bezeq, and 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. Disruptions, stoppages, strikes and slowdowns experienced by them may significantly affect our ability to provide cellular telephone services. 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.

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 currently relies on the use of 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. Our right to use the Orange brand is royalty-free until 2013, after which the parties will negotiate the amount of royalty payments. If the parties do not agree on the amount of royalty payments, the determination of royalty payments will be referred to an arbitrator. 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 purchased our network equipment, such as switching equipment, base station controllers and base transceiver stations and network software, from Alcatel (which acquired the Nortel UMTS business in 2006), Ericsson and Nokia. As of January 2008, we purchase all our UMTS network equipment from Ericsson, which increases our dependence on them as our sole vendor for our UMTS network. 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 our suppliers is unable to satisfy our equipment requirements. Our results of operations could be adversely affected if our 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.

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

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, in recent years, approximately one quarter of our operating expenses (excluding depreciation and amortization), including a substantial majority of our equipment purchases, were linked to non-shekel currencies, mainly the US dollar. These expenses related principally to the acquisition of handsets, where the price paid by us is based mainly on US dollars. 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, mainly US dollars. Thus, although the relative decline in value of the US dollar against the shekel has helped offset increases in our financial and operating expenses in recent years, 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.

We hedge a portion of our foreign currency commitments. As of December 31, 2008, the notional amounts of our foreign currency derivatives were approximately US$100 million and 6 million Euro. Our derivative transactions are mainly designed to hedge short-term cash flows related to anticipated payments in respect of purchases of handsets and capital expenditures in foreign currency.

Our bank credit facility borrowings and repayments of principal and interest on our Notes due 2012 are currently in shekels, most of which are linked to the consumer price index (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 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, 2008, the notional amounts of our CPI derivatives were approximately NIS 800 million (or approximately 37% of our CPI exposure at that date).

See Item 11. Quantitative and Qualitative Disclosures About Market Risk for more information regarding the Company s exposure to exchange rate fluctuations and inflation.

If we are not able to successfully integrate new businesses or technologies, our business, brand and results of operations may be harmed.

In order to expand and improve our offering of services to our subscribers, attract new subscribers and secure new sources of revenue, we may acquire or develop complementary businesses and technologies some of which we have launched in January 2009. The identification, acquisition and integration of new businesses or technologies may require substantial management resources, cause us to incur unforeseen costs and disrupt our ongoing business. Until now we have not engaged in significant acquisitions. If we are not able to successfully integrate any such new businesses quickly and efficiently with our existing business, our business, brand, results of operations, financial condition or cash flows may be harmed.

We may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which may have a material adverse effect on our operating results and our share price.

Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 relating to the evaluation of our internal control over financial reporting have resulted in increased general and administrative expenses and required substantial management time and attention. We expect these efforts to require a continued commitment of resources. If we fail to maintain the adequacy of our internal controls, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting. Although our management has concluded that our internal control over financial reporting was effective as of December 31, 2008, we may identify material weaknesses or other disclosable conditions in our future control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and significant effort and expense, and could have a material adverse effect on our operating results and on the market price of our ordinary shares.

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. The establishment in 2006 of a government in the Palestinian Authority by representatives of the Hamas militant group has created additional unrest and uncertainty in the region. Repeated attacks by Hamas including missile strikes against Israel, led to an armed conflict between Israel and the Hamas in December 2008 and January 2009. 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. In particular, in recent conflicts, missile attacks have occurred on civilian areas, which could cause substantial damage to our infrastructure network, reducing our ability to continue serving our customers as well as our overall network capacity.

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, and would thus have a negative impact on our revenue and results of operations.

We may not be able to fulfill our dividend policy in the future. If we implement our current dividend policy, we will reduce our future cash reserves, which may require us to borrow additional money.

We first distributed dividends in 2005, and we have distributed dividends in each subsequent year. The total amount of dividends distributed for 2008 was approximately NIS 841 million (US$ 200 million), or NIS 5.45 per share, and represented approximately 80% of annual net income. In addition, between the first quarter of 2008 and the third quarter of 2008, we purchased in open market transactions approximately 4.5 million of our shares for a total amount of approximately NIS 351 million (US$ 83 million). Under Israeli law, the payment of dividends may be made only from accumulated retained earnings or, for a company such as Partner Communications with negative net capital surplus, retained earnings accrued over a period of eight quarters (after deducting prior dividends to the extent not already deducted from retained earnings), and in either case, provided there is no reasonable concern that the dividend will prevent the company from satisfying current or foreseeable obligations as they come due. Accordingly, there is no assurance that we will be able to continue paying dividends or increase our payment of dividends in the future, nor is there any assurance that our Board of Directors will not change our dividend policy in the future.

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Our current dividend policy, if implemented, will significantly reduce our future cash reserves and may adversely affect our ability to fund unexpected capital expenditures as well as our ability to make interest and principal repayments on our financial indebtedness. As a result, we may be required to borrow additional money, which may not be possible on attractive terms or at all. See also the following risk factor regarding the risks related to future borrowing created by the current economic environment.

If we are unable to fulfill our dividend policy, or pay dividends at levels anticipated by investors in our shares, the market price of our shares may be negatively affected and the value of our investors investment may be reduced.

Our business results may be affected by continued recession.

Most of our revenues are usage dependant. The current global economic downturn is already affecting our results through a significant adverse impact in roaming activity, and to a certain extent also has a negative impact on average monthly usage per subscriber (MOU), average monthly revenue per subscriber (ARPU) and recruitment of new subscribers and in larger provisions for doubtful debt expenses. If the global economic downturn continues, usage of any of our services may decrease and we may not be able to compensate for lost revenues. This may have a material adverse effect on our results of operations, financial condition or prospects. The recession may also result in a further deterioration in the ability of our customers to pay amounts owed to us. Failure of one or more of our larger business customers to pay the amount owed to us may materially increase our bad debts and may have a material adverse effect on our results of operations and financial condition. Furthermore, the recession may adversely affect third parties we rely upon in the provision of our services, including interconnecting telecommunication providers, roaming partners and services and equipment providers. If our service or equipment providers fail to provide reliable and consistent services and/or equipment to us on the requisite standards of quality and on a timely basis, our ability to provide services to our subscribers may be reduced in scope and/or in quality, until and inasmuch as an alternative provider can be found, and consequently our license may be at risk of revocation for failure to satisfy the required service standards. An alternative provider and/or solution may involve additional expenses and/or investments on our part and/or may involve terms that are less favorable to us, including reduced revenues. In addition, if any damage is caused to us, or if we are found liable for damages caused to third parties by such service or equipment providers and such providers are unable to indemnify us for such damages, we may have to bear the cost of such damages, which may be substantial, and such outcome may adversely affect our financial condition.

Finally, we may seek to fund the repayment of the current portion of our Notes due 2012 (In 2009, NIS 542 million in principal plus approximately NIS 86.3 million in interest linked to the CPI as of December 31, 2008 and assuming no future change in the CPI) through additional bank loans, the issuance of new corporate notes and/or the securitization of accounts receivable. Particularly in light of current global economic conditions, there can be no assurance that we will be able to obtain additional bank loans, issue new corporate notes or securitize accounts receivable on acceptable terms or at all, which could have a material adverse effect on our cash flow and financial condition.

RISKS RELATED TO OUR CONTROLLING SHAREHOLDER

Our company is controlled by a single shareholder.

As of March 31, 2009, our controlling shareholder, Hutchison Telecommunications International Limited (Hutchison Telecom), who has been a major shareholder since we were created, held approximately 51.41% of our issued and outstanding shares and total voting rights. Hutchison Telecom has the ability to influence our business through its ability to control all actions that require majority approval by the shareholders 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 in 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 players in the cellular telecommunications market. We cannot assure you that we will continue to enjoy the benefits of this relationship.

Hutchison Telecom and its largest shareholder, Hutchison Whampoa Limited (HWL), are global players in the cellular telecommunications market. We benefit from the knowledge and experience of Hutchison Telecom and HWL in terms of both strategic advice and assistance in developing our business, and the recognition we have acquired in the industry as a result of their association with our company. Hutchison Telecom may not continue to be our controlling shareholder, and HWL may not continue to be the largest shareholder of Hutchison Telecom. If Hutchison Telecom ceases to be our controlling shareholder, or HWL ceases to be the largest shareholder of Hutchison Telecom, we may not continue to enjoy the current advantages of our relationship with Hutchison Telecom and HWL.

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.

Since our incorporation, we have achieved a number of important milestones:

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

In January 1999, we launched full commercial operations with approximately 88% population coverage and established a nationwide distribution.

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 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.

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 2100 UMTS third generation spectrum.

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

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

In December 2004, we commercially launched our 3G network.

In March 2005, we completed a debt offering, raising NIS 2.0 billion in a public offering in Israel of notes due 2012.

In April 2005, we repurchased 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% unsecured senior subordinated notes.

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 July 2006, we purchased Med-1 I.C. 1 (1999) Ltd. s fiber-optic transmission business for approximately NIS 71 million (US$16.8 million), 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 and land-line services.

In January 2007, we were granted a domestic fixed license by the Ministry of Communications, and in February 2007 we were granted a network termination point license.

In December 2008 and January 2009, we launched three additional non-cellular business lines: Voice over Broadband (VoB) telephony services, internet service provider (ISP) services and Web VOD (video on demand). See Item 4B. Business Overview Services and Products Value-Added Services .

For information on our capital expenditures for the last three financial years, and for the principal capital expenditures currently in progress, see Item 5B. Liquidity and Capital Resources

4B. Business Overview

In accordance with general practice in the cellular telephone industry, we use the term subscriber , unless the context otherwise requires, to indicate a telephone or a data or video device, rather than either a bill-paying network customer, who may have a number of telephones connected to the network, or a cellular telephone user who may share a single telephone with a number of other users. Subscriber includes our pre-paid customers. As of January 2008, a prepaid subscriber has been, and will continue to be, recognized as such only following the actual use of his prepaid SIM card. 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.

We were the first GSM mobile telephone network operator in Israel. We received our mobile telephone license in April 1998, commenced full commercial operations of our digital GSM cellular telephone network in January 1999 and on December 1, 2004 we commercially launched our third generation, or GSM, service. Since then, we have expanded rapidly, and on December 31, 2008, we had approximately 2.898 million subscribers, representing an estimated 31.4% of total Israeli cellular telephone subscribers at that date. During the twelve months ended December 31, 2008, we increased our customer base by approximately 3.5% (based on the application of our new policy regarding pre-paid subscriber recognition at both year-end 2007 and 2008), with approximately 99,000 net active new subscribers joining the Company in 2008, compared to 192,000 net new subscribers in 2007. At December 31, 2008, approximately 47.2% of our customer base (approximately 1,368,000 subscribers) was represented by private subscribers who subscribe to post-paid tariff plans, 27.1% (785,000 subscribers) by subscribers who subscribe to business tariff plans, and 25.7% (745,000 subscribers) by subscribers who subscribe to pre-paid tariff plans. As of December 31, 2008, we also had more than 951,000 3G customers (included in the subscriber data above).

We market our services under the Orange brand and the experience of our controlling shareholder, Hutchison Telecom. The Orange brand, which is licensed to us, has been used successfully in other markets around the world to promote cellular 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 2008, we were named by Globes, a leading Israeli business daily newspaper, as the number-one communications brand in Israel for the sixth consecutive year. We also won the Effie award in the communication category for the precisely for you marketing campaign. Finally in 2008, we won the best workplace award in the telecommunication industry, an award granted to us by Business Data Information (BDI).

Our GSM/UMTS network covered approximately 98% of the Israeli population at year-end 2008. We currently operate our GSM network in the 900 MHz and 1800 MHz bands. 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, ringtone and game downloads, information services, and General Packet Radio Services (GPRS), which enables the packet transfer of data.

Our 3G network offers a wide range of services, such as video calls, a new portal of content services including a rich selection of video-based services under the orange time sub-brand, and the transmission of data.

In March 2006, we launched services based on the High Speed Downlink Packet Access (HSDPA) technology. HSDPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds. The HSDPA technology has already been deployed to support up to 7.2 Mbps on the downlink and 1.4Mbps on the uplink.

ISP/VoB Overview

In December 2008 and January 2009, we launched three additional non-cellular business lines: Voice over Broadband (VoB) telephony services that compete with fixed-line telephone services; internet service provider (ISP) services that provide access to the internet as well as home Wi-Fi networks, value-added services (VAS) such as mail and anti-spam filtering; and Web VOD (video on demand) providing premium on-demand video (mainly full-track feature films and television series episodes), music tracks and games. See Item 4B. Business Overview Services and Products Value-Added Services . The services are marketed under the Orange brand and have been commercially available beginning in January 2009. Through launching these services, we took a further step towards realizing our strategy to evolve from a pure cellular operator into a diversified multi-service communications and media service provider.

At the time of our entrance into the ISP market, the three major ISPs already operating in the Israeli broadband market accounted together for more than 95% of the ISP market. We believe that through our unique product offerings, our high level of customer service and our meticulous execution we will be able to penetrate this market in the coming years.

The broadband market in Israel has been estimated by IDC, a consulting company, in its 2008 report to include 1.5 million consumer connections and 180 thousand business connections at the end of 2008. According to the Israel Central Bureau of Statistics, at the end of 2007, the time of the last census, there were 2 million households in Israel. Based on these statistics, the household broadband penetration in Israel is estimated to be approximately 75%.

The number of Voice over IP (VoIP) lines in Israel is estimated at the end of 2008 to be 550 thousand lines. This estimate is based on the two major VoIP operators, HOT and 012 smile , who published reports for September 2008 and December 2008, respectively. During 2008, Bezeq International Ltd (Bezeq International) and Netvision expressed their interest in launching VoB services. The number of Public Switched Telephone Network (PSTN) lines (excluding VoB) in Israel is estimated by IDC to be 2.6m lines at the end of 2008

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Special characteristics of the Cellular Telecommunications Industry in Israel

We believe that the following special characteristics differentiate the Israeli market from other developed cellular telecommunications markets:

High Cellular Phone Usage. Israeli usage of cellular phones is relatively high compared to Western Europe in terms of average monthly usage per subscriber.

Calling Party Pays. In Israel, only the party originating a telephone call pays for the airtime. Cellular telephone network operators do not charge subscribers to receive calls on their handsets, except while roaming. This encourages higher rates of cellular telephone usage.

High Cellular Telephone Penetration. Since 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, 2008 of 125% representing approximately 9.2 million subscribers out of an estimated population of approximately 7.4 million. The total number of estimated cellular telephone subscribers includes 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 Cellular Telephone Technologies. The four cellular telephone licensees in Israel have systems based on multiple technologies. We are currently one of three Israeli network operators using GSM and UMTS systems. GSM is an advanced, internationally accepted technology, and according to an industry source, was used by more than 3.2 billion people worldwide as of December 31, 2008. Other technologies currently used by Israeli cellular telephone licensees include the N-AMPS analog, TDMA, CDMA and CDMA1x RTT, EVDO, D-AMPS, EDGE, UMTS/HSXPA (HSDPA and HSUPA) and iDEN systems.

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 cellular telecommunications market as well as the acceptance of new value-added services as they become available on our network.

Our Strategy

We intend to continue to enhance revenues and profitability, and to continue to create value for our shareholders, customers and employees. In order to accomplish this, we intend to:

Broaden 3G Service Use and Our Subscriber Base. The penetration rate in Israel is very high; however, we believe that we can increase our revenues from our existing customer base and also add new subscribers to our network. We believe that a major source of growth for us is additional revenues from our 3G and data card subscribers consuming more data and content services. 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 consistently launch new 3G based products to attract new customers and to increase consumption of data services. We also aim to offer desirable content and to make our 3G services widely accessible and affordable.

Broaden and Diversify Our Portfolio of Products and Services and Maximize the Synergy between the New Lines of Business and Our Mobile Business. We believe that a growth opportunity exists by broadening and diversifying our portfolio of products and services beyond the pure cellular service to include fixed-line telephony, transmission services, Internet Service Provider (ISP) services and other accompanying telecom and media services. In order to reach customers, we will use our own mobile and fiber optic networks, leased access and transmission lines, or, with respect to Voice Over Broadband (VoB) services, the existing infrastructure of Bezeq, the incumbent land-line operator in Israel, and HOT, the cable television operator in Israel. We also intend to enrich our media and content offerings in order to attract new customers and increase the level of loyalty and satisfaction of our existing customer base. Our licenses to operate in various telecommunications areas enable us to provide a wide range of services that will potentially be used to create a bundle of telecom and other adjacent services which we believe will favorably affect our ability to limit cellular churn rates, increase customer loyalty, maximize the synergy between our lines of business and generate additional streams of revenues. In the foreseeable future, we believe that revenues from these services will not be material compared to our total cellular revenues.

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. We intend to continue to promote our brand, including in connection with our 3G services. We also intend to support our brand by continuing to focus on customer service, innovation and the quality of our network.

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 in 1999, 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, 2008, we have an Israeli nationwide UMTS network, which offers high speed data, advanced video content and video telephony, and in most populated areas also offers the features of HSXPA. We believe we are positioned as leaders in our 3G offering, both in terms of network quality and available content.

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.

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 cellular services in Israel.

Wide variety of communication products. We believe that our new initiative of offering VoB, ISP and VOD services will strengthen our position in the communications market. Offering a wide variety of combined mobile and fixed-line data products and services will enable us to better compete with the competitive bundled services of other players, increase customer loyalty, and serve as an additional source of revenue.

Beneficial Relationship with Hutchison Telecom. Our controlling shareholder, Hutchison Telecom and its controlling shareholder, HWL, are global players in the 2G and 3G mobile telecommunications market. Hutchison Telecom has a controlling interest in 3G mobile operations in Hong Kong, Macau and Indonesia, and HWL has a controlling interest in 2G and/or 3G mobile operations in Hong Kong, Macau Indonesia, Vietnam and Sri Lanka, and HWL has a controlling interest in 3G mobile operations in Austria, Australia, Denmark, Ireland, Italy, Sweden and the United Kingdom, and a license for developing a 3G network in Norway. We benefit from the knowledge and experience of Hutchison Telecom and HWL in terms of both strategic advice and assistance in developing our business, and the recognition we have acquired in the industry as a result of their association with our company.

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 1,154.0 million in the year ended December 31, 2000 to positive NIS 916 million and NIS 1,308 million for the years ended December 31, 2007 and 2008, respectively.

Strong and Motivated Management Team. We have been able to attract a number of Israeli senior managers from the telecommunications, high-tech and consumer products industries. Our management team is experienced and highly respected and, we believe, well-positioned to manage the Company. 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 cellular communications solutions in Israel. Our marketing strategy is based upon the strong international Orange brand and emphasizes network quality, feature rich services, simplicity, innovation, customer service and customer retention. 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.

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 and GPRS services. During 2008 we achieved the primary objective of our marketing strategy, which was to increase our 3G subscriber base and 3G usage by our customers as well as to enhance our long-term relationship with our customers through innovative retention activities.

In order to promote our advanced new services and to increase awareness of these services, we employ a large number of promotional activities and use a broad range of advertising media. During 2008 we continued to pursue extensive advertising presence in the media in order to maintain high exposure for our brand and advanced technologies. During 2008, our main advertising activities focused on promoting the subscribership and usage of 3G and HSXPA services, and of advanced mobile applications such as PC-mobile synchronization and mobile broadband using data-cards, as well as increasing loyalty among our customers. 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. Specifically in 2008 we sponsored a free-entrance, large scale concert that featured leading Israeli artists. In addition, we sponsored the International Film Festival, a major cultural event in Israel that takes place every year in Jerusalem and attracts international attention. We use the distinctive Orange brand logo in all our promotional activities and advertising. See Item 4B. Business Overview Intellectual Property.

Services and Products

Our principal business is currently the provision of mobile telecommunications services in Israel, and our goal is to become a diversified multi-service communications and media service provider and offer our subscribers a wide range of sophisticated and easy to use services based upon the latest proven technology.

Our most basic service is cellular 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 cellular portal, data and fax transmission and other services. We are continually developing tailored value-added services to meet the special needs of our subscribers and to enhance our long-term relationship with our subscribers.

Our use of HSCSD, GSM, GPRS, UMTS and HSXPA technologies enables high speed data transmission. All our content services, including 2G and 2.5G content, were re-branded during 2008 under the sub-brand orange time . Our orange time mobile services enable the streaming and downloading of rich applications and content and WAP browsing for 2G subscribers, while the 3G subscribers services are enhanced by video and high quality audio capabilities. Our MMS services enable subscribers to send photos, multimedia and animation from handset to handset and from handset to web. We also offer high quality customer service, as well as handset repair and replacement services for equipment sold to our subscribers.

Our 3G network offers a wide range of services, such as video calls; a new portal of content services including a rich selection of video-based and MP3 based services under the orange time sub-brand, and the transmission of data at speeds of up to 7.2 Mbps. We have concluded content agreements with a variety of content providers and suppliers in the Israeli television and entertainment industry.

In December 2008 and January 2009, we launched three additional non-cellular business lines: Voice over Broadband (VoB) telephony services that compete with fixed-line telephone services; internet service provider (ISP) services that provide access to the internet as well as home Wi-Fi networks, value-added services (VAS) such as mail and anti-spam filtering; and Web VOD (video on demand) providing premium on-demand video (mainly full-track feature films and television series episodes), music tracks and games. See Item 4B. Business Overview Services and Products Value-Added Services . More services are to be commercially available during the first half of 2009.

We have received and maintain the accreditation of the ISO 9001:2000 Standard from the Quality and Control Institute (ICQ), a quality system certification and registration body authorized by Bureau Veritas Quality International. ISO 9001:2000 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. In November 2008 we were audited by the ICQ and found to be in compliance with the requirements of the standards ISO 14001:2004 and OHSAS 18001:2007. The objective of the requirements of ISO 14001:2004 is to enable organizations to implement an effective environmental management system in order to help protect human health as well as the environment from the potential impacts of the company s activities, products and services and to assist in maintaining and improving the quality of the environment OHSAS 18001:2007 is an international occupational health and safety management system specification. The objective of its requirements is to enable organizations to eliminate or minimize risks to employees and other interested parties who may be exposed to occupational health and safety risks associated with the company s activities, and to implement, maintain and continually improve the occupational health and safety management system.

Tariff Plans

Since the beginning of our full commercial operations in 1999, we have introduced tariff plans aimed at bringing innovation to the Israeli cellular communications market. At December 31, 2008, approximately 27.1% of our subscribers were subscribed to business segment tariff plans (which are all post-paid), compared to approximately 24.6% at year-end 2007; approximately 47.2% of our subscribers were subscribed to post-paid private tariff plans; and approximately 25.7% were subscribed to pre-paid tariff plans.

Our business tariff plans offer features attractive to business users such as charging fees based on airtime usage without adding the interconnect charges imposed by other cellular and land-line providers for calls made by our subscribers that terminate on third party networks, and providing 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. Most of these tariff plans include subscription periods of 36 months.

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. Our tariff plans for private customers feature a certain number of free minutes for calls made between family members and special discounts on tariffs for calls among a limited number of family members or friends. They also offer limited handset subsidies. Based on an amendment to our license in March 2008, standard subscriber agreements with private customers have been shortened as of January 2009 to 18 months.

Under our pre-paid plans, upon purchase of a SIM card or 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 pre-paid cellular services market.

International Roaming

Israelis are frequent travelers, and Israel is a highly visited country. According to the Israel Central Bureau of Statistics, in 2008, more than 4.2 million overseas departures of Israelis were recorded, and almost 3.2 million people visited Israel during 2008. 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.

At December 31, 2008, we had open commercial roaming relationships with 376 operators in 174 countries or jurisdictions. We also have agreements with satellite operators, providing global coverage, requiring the use of unique handsets. 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.

At December 31, 2008, our commercial roaming relationships included 81 3G roaming agreements in 42 countries, compared to 48 3G roaming agreements in 32 countries at year-end 2007. The 3G roaming agreements enable our 3G roamers to initiate 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 band 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, 3G networks around the world are becoming gradually available to our 3G subscribers.

See Item 4B. Business Overview Regulation and also Item 3D. Risk Factors Risks Relating to the Regulation of Our Industry for risks relating to the regulation of roaming tariffs.

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 continuously track 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 2008 was to continue to expand our 3G and HSXPA business in Israel and to enhance our relationship with our customers through active retention activities. To meet these goals, we have expanded our 3G handset portfolio to cater to several specific market segments, we have enhanced our content portal offering and we have launched several innovative retention activities. The main cellular 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 from most countries.

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 access through either Packet-Switched or Circuit-Switched technology. Packet-Switched services are through GPRS, UMTS and HSXPA. We also support traditional Circuit-Switched based HSCSD service.

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.

Mobile Instant Messaging. Java based application, which enables a customer who is a registered user in Windows Live Messenger or ICQ IM communities to enter his personal account in the community from his cell-phone, and send and receive IM messages to and from his contacts and see their current status.

Orange GPS. Java based application enables customers navigation, including voice navigation, using their cellular phone.

Orange Hotspots. This service enables Wi-Fi access from laptops to wireless networks in more than a few thousand hotspots in Israel and around the world, such as hotels, airports and restaurants.

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

Orange Precisely for You . A service that checks a subscriber s rate plan, handset type, seniority and usage patterns and offers a personalized offer.

Orange Shop. Website offering new and existing customers an online shop for handsets and plans.

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, and 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 the user to track 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) with 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.

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.

During 2008, we expanded our value-added services beyond the cellular domain to include:

VoB (Voice over broadband). This service allows users to make and receive telephone calls over the Internet through an ISP connection. Our service includes Quality of Service, which ensures high quality voice transmission regardless of the load on the internet connection, and a home gateway which is unique in the Israeli market for its range of sophisticated functionalities, including call hijack between the customer s fixed and mobile telephone lines.

ISP (Internet Service Provider). As an internet service provider, we offer our customers access to the internet and internet services through a separate communications network. Our ISP offering includes improved email accounts based on Google s Gmail service, home WiFi networking, anti-virus and site filtering based on the customer s restriction definition, and other value added internet services. To back up our offering, we have established a dedicated staff for installation and support, and also provide a direct connection to the Israeli backbone and international backbone.

Web VOD (Video on Demand) Services. This service gives users access to our on-line media shop and enables them to view video items on their computers through internetstreaming. Under the orange time brand, our on-line media shop offers premium on-demand video (mainly full-track feature films and television series episodes), music tracks and PC (portable computer) and mobile games, under a variety of payment plans.

Our VoB, ISP and VOD services are available to all Israeli customers, not only to mobile customers, thus enabling us to reach more customers and grow our total customer base.

Handsets

We provide handsets to our subscribers at discounts of up to 100% when they first become subscribers or when upgrading their handsets. The discount offered 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 in 2100 MHz (3G) as well. Not all handsets support all band ranges. We evaluate the technical features of every new cellular 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 Enhanced Full Rate (EFR) compatible to provide high voice quality. All of our handset models have Hebrew language displays. We offer innovative handsets in our portfolio, including large screens with high resolution displays, high quality cameras with video capabilities, touch screen, large memory, embedded GPS, open operating systems (Symbian, Windows Mobile) with enhanced applications, T.V.application and music library, backup application, messaging and internet applications and rich content in our portal. Following the launch of our HSDPA network, we also sell handsets that enable customers to use content services with high-speed rates of data transmission and lap-tops with HSDPA embedded data cards.

Land-line Services

In addition to our cellular services, we provide, through our subsidiary Partner Landline Telecommunication Solutions, L.P., land-line transmission and data capacity services, using the transmission network we purchased from Med-1 1.C.1 (1999) Ltd. and have since then continued to expand. Our land-line capacity also includes capacity which we lease from other land-line telecommunications service providers. The services we offer include primarily connectivity services by which we provide high quality, dedicated, point-to-point connection for business customers and telecommunications providers, as well as land-line services to business customers.

Customer Service

Our customer support and service provides several channels for our customers: call centers, walk-in centers and self-service support, which includes Interactive Voice Response (IVR), web-based services and automated SMS.

Call Centers. Guided by our aim to provide high quality service, our call-center services are divided into several sub-centers: 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 33 Partner-owned service and sales centers across 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 (such as finance, rate-plan changes and subscription to new services). Several centers are focused on sales to both private and small business customers. These centers 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 including the initial lease period. See also Note 7a(3) to our consolidated financial statements.

Self-Service. We provide our customers with various self-service channels, such as IVR, web-based services, services via SMS and services via WAP. 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 ensure the quality of our services and to detect areas that 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.

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 the feel and 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 four regional offices, supports small to medium-sized businesses.
- A team of corporate representatives and customer account mangers who support large corporate customers.
- A door to door sales-force focuses on individual and 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 cellular data, intranet extension and connectivity, virtual private networks and other value-added services that appeal to corporate customers.

In addition, during 2008, we opened 33 new orange stands in shopping centers throughout the country, in addition to our six previously existing shops.

As part of our strategy to transition to a communication and multimedia service provider, we intend to enhance and expand our in-house distribution channels, which will include sales of new innovative products and services.

Indirect Sales Channels

Traditional Dealer Networks. At December 31, 2008, we had agreements with 29 traditional dealers providing 50 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. 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. In 2008, approximately 12% of our new subscribers were recruited through sales by Super-Pharm, the largest drugstore chain in Israel, under a contract to sell our network services in their stores and in a chain of stores called Super-Link . On December 31, 2008, we terminated our agreement with Super-Pharm after a comprehensive review of our distribution strategy and the effectiveness of our current distribution channels. Under the agreement, Super-Pharm was obliged to transfer to us all of its orange outside kiosks, which accounted for a substantial part of Super-Pharm s sales of orange services. We intend to enhance and expand our in-house distribution channels as part of our strategy to transition to a communication and multimedia service provider, which will include sales of new innovative products and services. We believe that the termination of the Super-Pharm agreement benefits the Company and will not have a material effect on our financial performance.

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. 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-kit installations.

Customer Contracts and Credit Policy

Based on an amendment to our license in March 2008, standard subscriber agreements with private customers have been shortened as of January 2009 from a maximum of 36 to 18 months. Most of our business customers sign 36-month contracts. Subscribers are billed monthly for airtime charges and charges per services. All customers are supervised by daily reports in order to display exceptional usage. Roaming access for direct debit subscribers is subject to credit scoring by Partner s credit supervisors with the assistance of outside credit agencies and may require additional guarantees or deposits.

Most of our individual subscribers 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 can subscribe and pay for their services by credit card or direct debit. Customers acquiring more than ten handsets (or less in certain circumstances) are subject to a credit scoring review performed by Partner s credit supervisors with the assistance of outside credit agencies.

Most of our subscribers pay for the handsets in 36 or 18 installments, depending on the term of their contract, which are 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. Under the terms of these contracts, customers who terminate their contracts prior to the expiration of the contract s term and who have purchased a subsidized 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 remaining number of months until the end of the contract term.

Our Network

We have built an extensive, resilient and advanced network system in Israel, allowing us to offer our services with extensive coverage and consistent high quality. During the years ended December 31, 2006, 2007 and 2008, we have made net capital expenditures of NIS 363 million, NIS 417 million and NIS 351 million ($83 million), respectively, in our network infrastructure, including optic fibers.

Overview

Third generation wireless communication, which offers full interactive multimedia capabilities at data rates of up to 384 Kbps, is 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 wireless telecommunications capable of data rates of 7.2 Mbps and is the 3G technology we use. HSXPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds for downloading (HSDPA) and uploading (HSUPA) data.

Infrastructure

As of December 31, 2008, our GSM network consisted of 1,846 macrobase transceiver stations, 205 microbase transceiver stations and 357 indoor transceiver stations, all linked to 30 base station controllers. The base station subsystem is controlled by 11 cellular switching centers. Base transceiver stations, cellular switching centers and base station controllers are interconnected by approximately 5,750 transmission links. Ericsson and Nokia supply our base station controller and base transceiver station sites for our GSM and GPRS network.

As of December 31, 2008, our UMTS network consisted of 1,770 macrobase transceiver base stations, 45 microbase transceiver stations and 184 indoor transceiver stations, all linked to 13 radio network controllers. The base station subsystem is controlled by four mobile switching centers and six media gateways. The base transceiver stations, the mobile switching centers and the radio network controllers are interconnected by approximately 2,200 transmission links. As of January 2008, Ericsson is our sole 3G UTRAN and core network equipment supplier, and we are progressively replacing equipment purchased from other suppliers with Ericsson 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 three cellular networks and the six Israeli international operators, and indirectly to the land-line and cellular telephone networks of Paltel.

Our transmission network is made up of leased lines from Bezeq and Cellcom and our own microwave links and fiber optic infrastructure. Currently most of our transmission network consists of leased lines. Our fiber-optic transmission network enables us to reduce our transmission costs as well as to provide our business customers with bundled services of data and voice transmission and land-line services

Our GSM and UMTS networks covered approximately 98% of the Israeli population at year-end 2008. We are continuing to expand and improve the coverage, capacity and quality of our UMTS network.

Network Design

Our primary cellular network design objective is to further expand and improve our UMTS/HSXPA cellular telephone network 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 continue to broaden the highest quality network. The quality parameters that we seek to satisfy are those that we believe are important to cellular 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 dropped calls rate.

With these quality parameters in mind, we rolled out our UMTS/HSPA network starting in 2004 , which shares locations with the GSM sites. In December 2007, we signed an agreement with LM Ericsson Israel Ltd. for the replacement of third party 3G radio equipment existing in our network, and during 2008, more than half of our network was replaced with new and more advanced equipment. See Item 5A. Operating Results Ericsson Agreement .

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/HSXPA 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.

This infrastructure enables us to provide services to our customers such as call hijack which allows customers to retrieve in-coming mobile line calls on their fixed line, improved email accounts based on Google s Gmail service, anti-virus and site filtering based on the customer s restriction definition.

In December 2008 and January 2009, we launched additional non-cellular business lines that target households in the Israeli market. We became an Internet Service Provider (ISP), providing internet to Israeli customers at their homes, over third parties existing network infrastructure. In addition to this service, we began providing fixed-line phone calls using VoB technology. The technology is based on the Nokia Siemens Next Generation Network (NGN) softswitch. In order to provide the fixed-line services, we developed a home gateway box (smartbox), that provides the customer with a setup of a home network WiFi based on the protocol 802.11n, FXS and DECT supported phones, and built in firewall.

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 which operates 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. See Item 3C. Risk Factors for a discussion of the risks associated with regulatory developments in spectrum allocation.

We were also allocated two additional bands of spectrum: 2 x 10 MHz of GSM 1800 spectrum and 2 x 10 MHz and 1 x 5 MHz of UMTS/HSDPA third generation spectrum. We operate GSM 1800 MHz band base transceiver stations that enhance the capacity of our GSM 900 MHz network, and improve our GSM 900 MHz network s quality.

Enabling Systems

Our UMTS network offers advanced applications and services including, among others, a UMTS content portal offering a variety of services such as live TV channels, JAVA games, maps and directions application, wide range of music (MP3) services. We have installed a video gateway and a streaming server, enabling us to offer our customers a range of video services on UMTS 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 network 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 network sites requires 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 network sites and the requirement to provide indemnification undertakings to local committees.

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 supplied us with cellular switching centers, radio network controllers, Node B s and other UMTS equipment. In 2006, the Nortel UMTS access business was sold to Alcatel Lucent.

Ericsson, together with its affiliates, is a major supplier of GSM equipment with cellular 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, as a second vendor for UMTS infrastructure equipment. On December 20, 2007, we entered into an agreement with Ericsson for the supply of 3G radio equipment to replace our existing Alcatel-Lucent 3G equipment and to expand our existing 3G network, as well as to provide support and maintenance for the Ericsson elements in our network. As a result, Ericsson became our sole supplier for our 3G network.

Nokia also supplies us base station controllers, base transceiver stations and network management system equipment.

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.

We have agreements with Baran Raviv, Bintech and H. Mer, all Israeli engineering companies, for the construction of our sites.

Interconnection

All telecommunications providers with general licenses in Israel have provisions in their licenses requiring them to connect their networks with all other telecommunications networks in Israel. Currently, our network is connected directly with all other telecommunications networks operating in Israel.

We are currently operating without any formal interconnect agreements with Bezeq. Day-to-day arrangements with Bezeq substantially conform to a draft interconnect agreement negotiated with Bezeq. 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 all Israeli cellular and with the other land-line companies. The interconnect tariffs are set forth in the Interconnection Regulations (Telecommunications and Broadcasts) (Fees for Interconnections) 2000 that imposes a uniform call interconnect tariff for all cellular telephone operators.

Our network is connected directly and indirectly through Bezeq to Paltel and Jawwal, the Palestinian land-line and cellular operators. Since we transfer and receive part of the traffic to and from Paltel s network through the Bezeq network, we pay Bezeq a transit fee for each call.

In recent years, the Ministry of Communications has reduced the call interconnect, and SMS interconnect tariffs. A further review of these tariffs by the Minister of Communications is expected. 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. The Grunau Committee, whose recommendations were published in March 2008, recommended further review of interconnect tariffs. See - Regulation Telecommunications Law below.

We have written interconnect agreements or operating arrangements with all of the international service providers serving Israel. The regulated interconnect tariff for incoming international calls was reduced to NIS 0.22 per minute, in line with the reduction in interconnect tariffs for incoming domestic calls, effective March 1, 2008. This tariff, adjusted to conform to changes in the consumer price index (CPI), amounts to NIS 0.274 per minute as of March 1, 2009.

In January 2007, one of our subsidiaries received a domestic land-line license. Our subsidiary is connected, directly with all other telecommunication networks operating in Israel. The interconnection fees are set by the Interconnection Regulations (Bezeq and Broadcasts) (Fees for Interconnection) 2006.

Competition

There are currently four cellular telephone network operators in Israel: Partner, Cellcom, Pelephone and MIRS. We compete with Cellcom, Pelephone and MIRS principally on the basis of telecommunications service quality, brand identity, variety of handsets, tariffs, value-added services (VAS) and the quality of customer services.

The table below sets forth an estimate of each operator s share of total subscribers in the Israeli cellular market at December 31, 2004, 2005, 2006, 2007 and 2008.

Market Share*	**2004**	**2005**	**2006**	**2007**	**2008**
Partner	32.4%	32.2%	31.7%	31.7%	31.4%
Cellcom	33.9%	33.2%	34.3%	34.1%	34.6%
Pelephone	29.5%	29.9%	28.9%	29.0%	28.7%
MIRS	4.2%	4.7%	5.1%	5.2%	5.2%

* 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.

Cellcom is an Israeli corporation whose major beneficial shareholder is Discount Investment Corporation Ltd, (DIC). DIC is a majority-owned subsidiary of IDB Development Corporation, which in turn is a majority-owned subsidiary of IDB Holding Corporation Ltd (IDB). The IDB group is one of the largest diversified business groups in Israel, whose indirect subsidiaries also operate in the Israeli communications market.

Cellcom operates nationwide cellular telephone networks based on GSM 1800 MHz/GPRS, D-AMPS, EDGE and UMTS/HSDPA HSUPA technologies.

Pelephone is an Israeli corporation wholly owned by Bezeq, the primary land-line operator in Israel that is controlled by S.C.G. Group (Haim Saban), the Apax Fund, and Arkin Communications (Mori Arkin). Pelephone, which currently uses the N-AMPS analog and the CDMA, CDMA-1x RTT, as well as the EVDO technology, launched in the beginning of 2009 a UMTS/HSXPA network, which might strengthen its ability to compete in the provision of inbound and outbound roaming services as well as improve its competitive position in the market.

MIRS, an Enhanced Specialized Mobile Radio, or trunking network, holds a general license to operate as a mobile telephone operator. MIRS is an Israeli corporation whose major shareholder is Motorola Communications (Israel) Ltd. MIRS operates using an Enhanced Specialized Mobile Radio, or trunking iDEN network and has expressed its intention to roll out a WiMAX network subject to receiving a license. MIRS has also expressed its interest in upgrading its network to WiMax technology.

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In addition, the Palestine Telecommunication Co. Ltd. (Paltel) operates a GSM mobile telephone network under the name Jawwal in the Palestinian Administered Areas, as well as a land-line network. Paltel s GSM network competes with our network in some border coverage overlap areas. In addition, a second Palestinian operator, Watania, is expected to roll out its GSM network during 2009.

Several service providers offer competitive roaming solutions. The service is offered, inter alia, by the International Long Distance vendors as well as by specialized enterprises.

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, HOT, the cable television operator in Israel, and other telecommunication services providers who are entering the land-line market. Bezeq holds 100% of the shares of Pelephone, which may enable Pelephone and Bezeq and other affiliates of Bezeq to offer bundled services of land-line, mobile telephone and other telecommunication services, subject to regulatory approval. In the future other holders of licenses to provide land-line telephone services may enter the mobile telecommunications services market via MVNO and increase the level of competition we face.

In connection with our new services beyond the cellular market, there are currently three major fixed ISP providers in Israel that we compete with since recently entering this market: Bezeq International, Smile 012 and Netvision, which together account for approximately 95% of the ISP market in Israel. With respect to video on demand (VOD), we are the first operator in Israel to launch Web VOD service over the internet to the user s PC. The service is considered to be innovative and certain media and telecom companies have expressed an interest in approaching this market. In the land-line telephone service market including both (legacy and VoB transmission), which we have recently entered, there are a number of providers. Bezeq is the major Time Division Multiplexing (TDM) provider and HOT and Smile 012 began providing VoB/VoIP service a few years ago.

The Ministry of Communications has granted a new services provider a trial license to provide VoBoC services. For a discussion of the risks created by our competitive environment, including risks arising in connection with government measures to increase competition, see Item 3D. Risk Factors .

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 network 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 (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 are an important factor in our business success 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. Our Vantive CRM system is in the process of being replaced through a contract with IBM to implement a new CRM system based upon Siebel software. The migration to the new CRM system is still in progress.

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 Limited, formerly 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. If the parties do not agree on the amount of royalty payments, the determination of royalty payments is referred to an arbitrator. 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, 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.

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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 and other telecommunication services in Israel, and sets the terms by which such services are 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.

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 cellular telephone operators and to the international operators. In addition, the Ministry of Communications may issue additional mobile telephone operator and other licenses in the future.

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 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. Recently, the Ministry of Communications initiated a review to re-evaluate the scope of the immunity provisions.

In January 2007, the Telecommunications Law was amended to provide that the Ministry of Communications is authorized to impose significant monetary sanctions on a license holder that breaches a provision of its license, which breach causes, or may cause, significant harm to the public or to competition.

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%. For 2007 the rate was 2.5% , for 2008 the rate was 2%, for 2009 the rate is 1.5%.and it will be finally reduced to a rate of 1% in 2010.

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 telecommunications 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 failed to challenge successfully. For more information see Item 3D. Risk Factors We operate in a highly regulated telecommunications market which limits our flexibility in managing our business and may materially and adversely affect our business and results of operations .

The Israeli Commissioner of Restrictive Trade Practices expressed his view in the past, that the cellular telephone industry in Israel operates as an oligopoly and that the Israeli government should intervene to regulate prices. 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. Tariff increases by the cellular telephone operators have prompted the Ministry of Communications to express its intention to intervene in the market by, *inter alia,* introducing new operators. See Item 3C. Risk Factors .

Regulatory Developments

The regulations regarding the international call market currently prohibit cellular operators from applying for licenses for this market. Following the Grunau Committee s recommendations of March 2008, the Ministry of Communications announced that it would allow the cellular operators to offer international call services, subject to certain revisions in the interconnection regulations and provided that the MVNO operators, including those who are international call operators, first be allowed entry into the cellular market.

In 2004, the Ministry of Communications began authorizing the issuance of licenses to provide domestic land-line services to customers, competing with Bezeq, on a non-universal service basis. Services provided under such license should be precisely defined by the provider, should be provided to customers in a region, or regions, defined by the provider and should 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. In January 2007, we were granted this license. The Ministry of Communications has promulgated regulations that, coupled with a change effected in the cellular telephone operators licenses, impose a uniform call and SMS interconnect tariff. In November 2004, the Ministry of Communications announced regulatory changes significantly reducing call interconnect tariffs and SMS interconnect tariffs, effective March 1, 2005, with additional reductions mandated for the coming years. A further review of these tariffs by the Minister of Communications is expected. 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, but have been suspended. See Item 4B. Information on the Company Business Overview Interconnection.

In November 2006, the license of each Israeli cellular operator was amended in a manner that obligates the operator as of January 2007 to provide, in all calls made to its subscribers and directed to voicemail, an announcement that the call is being directed to voicemail. The operators are not allowed to charge for a call terminated up to one second after the announcement is made. Such regulation has adversely affected our financial results.

In January 2007, the Ministry of Communications published a policy regarding VoB services. The policy, among other things, allows licensed third parties to access the infrastructure of domestic land-line operators in order to provide VoB services to customers, charging customers directly, with no need of the VoB operator to pay to the access owner any usage fees. Our domestic land-line license was amended in February 2007 to allow us to provide VoB services to the public in accordance with this policy.

In January 2007, the Ministry of Communications appointed a public commission, headed by Prof. Grunau, a professor of economics at Hebrew University, to formulate recommendations regarding the policy and the principles of competition in the Israeli telecommunications market. The issues that were examined by the commission included the structural separation of activities, such as transmission and content, including the structural separation of Bezeq; the requirement that licensed telecommunication companies provide access to their infrastructure to other companies; and the principle of convergence arrangements between cellular and land-line operators, as well as between voice service providers and video and data service providers. In March 2008 the commission published its recommendations including the following recommendations: developing a wholesale market in the land-line segment that would center around a local loop unbundling obligation, acceleration of the regulatory process required for the entry of virtual operators into the cellular market and of the WiMAX tender, and a change in the billing method for calls initiated by our subscribers to destinations abroad, following which the tariff for such calls is determined by the international operator who will pay us the regulated interconnect tariff for incoming international calls to cellular subscribers.

In August 2008, the Ministry of Communications adopted the majority of the recommendations published in March 2008 by the Grunau Committee. The recommendations adopted include recommendations: to accelerate the procedures necessary to allow the entry of MVNOs and additional infrastructure based operators to the cellular market; to publish a WiMAX frequencies tender for cellular use; to examine interconnect fees and further revise them accordingly, during 2009; to negotiate a reduction of inbound and outbound roaming tariffs with the European Union and/or members of the European Union and/or countries frequently visited by Israelis; to regulate charges for mobile-originated international calls; and to prohibit a linkage between a cellular services transaction and a handset purchase transaction. Another recommendation concerns the unbundling of Bezeq s network to be followed by alleviating some of the restrictions with respect to offering integrated packages of services currently imposed on Bezeq and its subsidiaries.

Also, in August 2008, the Israeli Government adopted resolutions in line with the Grunau Committee recommendations concerning MVNO, roaming tariffs and interconnect fees, as well as a resolution directing the Ministry of Communication to examine ways to encourage the entry into the cellular market of additional operators, including by providing certain reliefs and incentives.

In March 2008, our license was amended shortening the maximum commitment period in the agreements with private customers to 18 months, and to offer other effective rate plans without a commitment period.

Several new regulations directly affecting our business operations entered into effect in January 2009:

In 2008, the Consumer Protection Law was amended in a manner that obligates us, commencing January 2009, to terminate certain services (excluding voice services) we provide to our subscribers during a predefined period at the end of that period, unless the price for the services to be provided after the end of the predefined period has been set in advance or we have received the subscriber s affirmative consent to continue and provide these services.

In October 2008, our license was further amended effective December 31, 2008, obligating us to set fixed tariffs for certain services determined by the Ministry of Communications in limited period non-business customer agreements and prohibiting us from raising tariffs during the agreement period.

Our license was amended, effective January 2009, to require us to offer tariff plans based on billing units reduced from 12 seconds to no longer than one second. Such regulation may adversely affect our business and operating results.

The Ministry of Communications is also conducting hearings on various matters related to our business, such as:

The Ministry of Communications has been conducting a hearing process to consider prohibiting the cellular operators from linking the sale of handsets to the provision of various benefits regarding cellular services, including air time.

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 the customers of foreign network operators while they are in Israel and using our network, as well for calls made by our own customers using their handsets abroad. Recently, the Minister of Communications has requested additional and more specific international roaming data from the cellular companies. Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.

Recently the Ministry of Communications and the Council for Cable TV and Satellite Broadcasting have published a public hearing in order to determine whether there is a need to regulate the provision of video services over the internet which might compete with multiple channel television services.

The Ministry of Communications has begun conducting a hearing process based on one of the Grunau Committee recommendations of March 2008 (described above) to consider a change in the manner in which accounts are settled between the international operators and the cellular operators.

Entry of MVNO Operators

MVNOs, or mobile virtual network operators, are mobile telecommunications operators that do not own their own spectrum and usually do not have their physical own network infrastructure. Instead, MVNOs have business arrangements with existing cellular operators to use their infrastructure and network for the MVNOs own customers. The introduction of the operation of MVNOs into the Israeli mobile telecommunications market could increase competition, which may adversely affect our business, revenues and results of operations.

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In March 2007, the Ministry of Communications initiated a review whether to allow the entry of MVNO operators in the Israeli telecommunications market. In August 2007, although the market was found to be competitive , recommendations were submitted to the Ministry of Communications to allow the entry of MVNOs into the Israeli mobile market by granting them licenses, at the first stage by encouraging negotiations between potential virtual operators and the existing mobile operators without the Ministry of Communication s intervention. In August 2007, the Israeli government instructed the Ministry of Communications to take all measures necessary to allow any MVNO wishing to provide cellular services to the public using the network of a cellular operator to do so as of December 31, 2007. In March 2008, the public commission headed by Prof. Grunau recommended acceleration of the regulatory process required for the entry of MVNOs into the mobile market. This recommendation was adopted by the Ministry of Communications. In addition, a private bill was introduced in parliament to facilitate the process of MVNO entry into the Israeli market. In January 2009, the Ministry of Communications began conducting hearings regarding the draft MVNO license and regulations and we submitted our position in February 2009.

Number Portability

In March 2005, the Telecommunications Law was amended to require the Minister of Communications to implement a mobile number portability plan and, separately, a fixed number portability plan, in each case by September 2006. The number portability plan permits subscribers in Israel to change their service provider to another network operator while retaining the same telephone number.

The number portability plan mandated by law was launched by all telecommunications operators on December 1, 2007. The Ministry has notified us as well as the other operators that it is considering imposing monetary sanctions on relevant telecommunication license holders, including us, in accordance with the Telecommunications Law for alleged violation of the obligation to implement number portability by September 2006. We submitted our position to the Ministry stating that the delay was a result of the Ministry s failure to adequately plan and design the number portability plan. As a result of this dispute, we may be exposed to substantial monetary sanctions and further legal claims.

WiMAX Bandwidth

In February 2009, the Ministry of Communications published a policy regarding the allocation of bandwidth in the WiMAX spectrum. WiMAX is a technology that aims to provide wireless data over long distances, in a variety of different methods, from point to point links to full mobile type access. The Ministry of Communications policy reflects its decision that incumbent cellular operators would not currently be allowed to participate in the WIMAX 2.5 GHz frequency tender, which will be open mainly to new entrants to the telecommunications market. If WiMAX frequencies are made available only to new entrants to the telecommunications market, our ability to compete would be impaired. Some of these frequencies have already been allocated to third parties. If such frequencies are not available to us in the future, it may harm our ability to migrate to the next generation of GSM technology, such as LTE.

Liberalization of Handset Market

The Ministry of Communication announced in October 2005 its plans to increase competition in the market for selling cellular handsets 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.

Our Mobile Telephone 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 consumer price index (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, which ruled in our favor. The Ministry of Communications appealed the decision, and the Supreme Court ruled in our favor.

The Minister of Communications amended our license in February 2002 to include the provision of 3G services by us and extended our mobile telephone license through 2022.

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.

On March 9, 2005, our 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 would result 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 and outstanding 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 individuals who are 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, provided that if the Board of Directors 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.

Matters relating to national security shall be dealt with only by a Board of Directors committee that has been formed for that purpose. The committee includes at least 4 members, of which at least one is an external director. Only directors with the required clearance and those deemed appropriate by Israel s General Security Service may be members of this committee. Resolutions approved by this committee shall be deemed adopted by the Board of Directors.

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.

In March 2007, our license was further amended. Among the changes was a requirement not to provide access to services, whether from Partner or a content supplier, if the subscriber has not specifically requested access to such service and for which there is a significant charge to the subscriber. We must also inform subscribers that they have the ability to block access to such services.

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.

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.

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 and other domestic land-line operators, the other mobile telephone operators and the international operators.

Conversely, we must allow other network operators to interconnect to our 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 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 as well as offer roaming services outside the State of Israel. In May 2000, we were also granted a license from the Israeli Civil Administration, to provide mobile services to the Israeli populated areas in the West Bank. The license is effective until April 7, 2013. The provisions of the general license described above, including as to its extension, generally apply to this license, subject to certain modifications. We believe that we will be able to receive an extension to this license upon request.

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 other than external directors.

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 an emergency period, 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.

Other Licenses

Domestic Land-line License. In January, 2007, the Ministry of Communications granted Partner Fixed Communication Solutions Limited Partnership, which is fully owned by the Company, a license for the provision of domestic land-line telecommunications services. The license expires in twenty years but may be extended by the Ministry of Communications for successive periods of ten years provided that the licensee has complied with the terms of the license and has acted consistently for the enhancement of telecom services and their enhancement. The licensee deposited a bank guarantee in the amount of NIS 10 million with the Ministry of Communications upon receiving the license which shall be used to secure the licensee s obligations under the License. The general conditions of the mobile telephone license described above, generally apply to this license, subject to certain modifications. In addition to any 10% share transfer requiring the prior approval of the Ministry of Communications, the license additionally requires approval prior to a third party acquiring the ability to exercise significant influence over us. In this context, holding 25% of our means of control is presumed to confer significant influence. The license was amended in February 2007 to grant us the right to offer Voice Over Broadband (VoB) services using the infrastructure of Bezeq and HOT to access customers and to provide them with land-line telephony service. The License was further amended in July 2007 to incorporate the provision of transmission and data communications services that were previously provided for under a transmission license that was granted in July 2006. In March 2009, we were also granted a domestic land-line license to provide land-line services to the Israeli populated areas in the West Bank. The license is effective until March 2019.

ISP License. In March 2001, we received a special license granted 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 was renewed in April 2008 and is valid until April 2013. We began supplying commercial ISP services beginning in January 2009.

NTP License. In February 2007 we received a special license granted by the Ministry of Communications allowing us to provide certain telecom services, including providing and installing equipment and cabling, representing the subscriber with local fixed operators, and establishing and operating control facilities within a subscriber s premises. The license is valid until February 2012.

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.

Network Site Permits

Permits of the Ministry of the Environment

Pursuant to the Pharmacists (Radioactive Elements and Products) Regulations, 1980 (the Pharmacists Regulations) issued under the Pharmaceutics Ordinance, the Ministry of the Environment was empowered to grant erection permits and operation permits for our antennas. The granting of such permits was subject to the satisfaction of conditions to which we were subject under the Pharmacists Regulations. The application to the Ministry of the 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), which replaced the Pharmacists Regulations regarding matters that pertain to radiation from cellular sites, was enacted. This law defines the various powers of the Ministry of the Environment as they relate, *inter alia,* to the grant of permits for network sites and sets standards for permitted levels of non-ionizing radiation emissions and reporting procedures. Pursuant to this law, most of which entered into effect on January 1, 2007, a request for an operating permit from the Ministry of the 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 the Environment. Operation of an network site without a permit from the Ministry of the 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 network 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.

Under the Non-Ionizing Radiation Law, 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 network 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 network 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 that result from the granting of permits for network 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 cellular 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 cellular 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 received from the Ministry of the Environment, the permits that are necessary for the repeaters.

In addition, we construct and operate microwave links as part of our transmission network. The various types of microwave links receive permits from the Ministry of the Environment in respect of their radiation level. Based on an exemption in the Telecommunications Law, we believe that building permits are not required for the installation of most of these microwave links on rooftops, but to the best of our knowledge, there is not yet a determinative ruling on this issue by the Israeli courts. If the courts determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability to deploy additional microwave links, and could hinder the coverage, quality and capacity of our transmission network and our ability to continue to market our land-line services effectively.

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 the 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 (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 cellular 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 cellular 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 cellular 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. A consultant had 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 met with cellular telephone operators, including Partner. In August 2006, the consultant submitted his findings to the Ministry of Communications, but the Ministry of Communications has not yet issued any guidelines. We intend to comply with the decision of the Ministry of Communications on this matter once a decision is published.

In June 2007, the Minister of Communications granted our subsidiary, Partner Land-Line Communications Solutions LLP, the rights to use public land for the purpose of deploying and maintaining our transmission network, subject to the consent of the relevant local planning committees pursuant to an expedited approval process. As a result of these rights, we are exempt from applying for a building permit under the Planning and Building Law in connection with the deployment and maintenance of our transmission network on public land.

4C. Organizational Structure

We currently have three wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., an Israeli corporation, Partner Land-Line Communications Solutions LLP, an Israeli limited partnership, and Partner Business Communications Solutions, LLP, an Israeli limited partnership. Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner of each of the limited partnerships. We are an indirect subsidiary of Hutchison Telecom, which as of March 31, 2009, held approximately 51.41% of our issued and outstanding shares and total voting rights. Hutchison Telecom is an international provider of mobile and land-line telecommunications services with operations in eight markets.

4D. Property, Plant and Equipment

Headquarters

We lease our headquarter facilities in Rosh Ha-ayin, Israel, in three sites with a total of approximately 35,000 square meters. The leases for each site have different lengths and specific terms, but we believe that our current office facilities are adequate for the foreseeable future, and that we will be able to extend the leases or obtain alternate or additional facilities, if needed, on acceptable commercial terms.

We lease two call centers in Haifa, as well as in Jerusalem and other locations in Israel. The leases for each site have different lengths and specific terms, but we believe that our current call center facilities are adequate for the foreseeable future, and that we will be able to extend the leases or obtain alternate or additional facilities, if needed, on acceptable commercial terms.

Network

For a description of our telecommunications network, see Item 4B. Business Overview Our Network above.

We lease most of the sites where our mobile telecommunications network equipment is installed throughout Israel. At December 31, 2008, we had 2,488 network sites (including micro-sites). The lease agreements relating to our network 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 erection and operation of most of these network 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 cell network sites. In addition, as we grow our subscriber base and seek to improve the range and quality of our services, we need to further expand our network, and difficulties in obtaining required permits may delay, increase the costs or prevent us from achieving these goals in full. See Item 3D. Risk Factors Risks Relating to the Regulation of Our Industry and Item 4B. Business Overview Regulation .

Land-lines. In addition to our cellular network, we possess, through our subsidiary Partner Landline Telecommunication Solutions, L.P., land-line transmission and data capacity. Our land-line capacity also includes capacity which we lease from other land-line telecommunications service providers.

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 sixteen additional years (including the original lease period). The average size of our retail stores and service center is approximately 350 square meters. See also Note 7a(3) 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.

5A. Operating Results

Overview

Business Developments in 2008

In 2008, approximately 99,000 net active subscribers joined the Company, compared with approximately 192,000 in 2007. The business sector accounted for approximately 84% of annual net new active subscribers. At the end of December 2008, the Company s active subscriber base, including both 2G and 3G subscribers, was approximately 2,898,000, including approximately 785,000 business subscribers (customers who subscribe to business rate plans), or 27.1% of the base, approximately 1,368,000 post-paid private subscribers, or 47.2% of the base, and approximately 745,000 prepaid subscribers, or 25.7% of the base. Beginning in January 2008, the Company adopted a more conservative and rigorous policy for recognizing prepaid subscribers. The aim of the new policy is to ensure that purchased prepaid SIM cards are only recognized in the subscriber base after the prepaid SIM cards are actually used by the prepaid subscribers. Based on this new policy in January

2008, we reduced the number of reported prepaid subscribers by approximately 61,000. 2008 year-end total market share is estimated to be 31.4%, compared to approximately 31.7% at year-end 2007.

The Company added approximately 318,000 subscribers to its 3G network in 2008, and its 3G subscriber base reached approximately 951,000 subscribers by year-end. Approximately 44% of our post-paid subscriber base benefited from the wide range of 3G services and advanced handsets we offered by year-end. The increase in 3G subscribers was a key driver for the increase in revenues from data and content services (excluding SMS messages) from NIS 425 million in 2007 to NIS 529 million in 2008. In the fourth quarter of 2008 we carried out the initial implementation and launch of the Company s new portfolio of services, which includes ISP services, mail access, Wi-Fi, fixed telephony through VoB and web VOD services. We thus took a further step towards realizing our strategy to evolve from a pure cellular operator into a diversified multi-service communications and media service provider.

In December 2007 number portability was introduced in Israel. The introduction required us to invest additional resources in order to reach out to new subscribers and to ensure the continued satisfaction of our existing subscribers. Largely as a result of number portability and its impact in the first half of 2008, the annual churn rate in 2008 was 17.8%, an increase from 15.0% in 2007. For a definition of churn rate , see footnote 8 under Item 3A. Selected Financial Data .

Reported 2008 average monthly usage per subscriber (MOU) was 365 minutes, an increase of 8.6% compared with 336 minutes in 2007. The increase is explained in part by the effect of a special campaign in the first months of number portability that offered new and upgrading subscribers a significant number of free minutes for a period of 12 months. Reported 2008 annual average monthly revenue per subscriber (ARPU) was NIS 159 (US$ 42), an increase of 0.6% compared to NIS 158 in 2007. The above amounts for 2007 are not adjusted for the approximate 61,000 decrease in the subscriber base following the change to our prepaid recognition policy in January 2008, which would have increased minutes per user (MOU) for 2007 to 343 minutes and ARPU for 2007 to NIS 162. The table below sets forth a summary of selected financial and operating data for each of the years ended December 31, 2008, 2007and 2006.

	Year ended December 31,		
	2006	**2007**	**2008**
Revenues (NIS million)	5,607	6,114	6,330
Operating profit (NIS million)	1,214	1,399	1,605
Income before taxes (NIS million)	1,052	1,278	1,447
Net income (NIS million)	682	940	1,051
Capital expenditures, net (NIS million)	488	469	445
Cash flow provided by operating activities net of investment activities (NIS million)	775	916	1,308
Subscribers (thousands)	2,668	2,860	2,898
Annual churn rate (%)	15.6%	15%	17.8%
Average monthly usage per subscriber (in minutes)	311	336	365
Average monthly revenue per subscriber (NIS)	158	158	159

Ericsson Agreement. On December 20, 2007, we entered into an agreement with LM Ericsson Israel Ltd. (Ericsson) for the replacement of third party 3G radio equipment in our existing 3G network and additional investment in the 3G network, as well as support and maintenance of our network for a period of three years. We allocated the purchase price of US$ 65 million to the above deliverables based on their relative fair values. Of this amount, US$ 6.6 million related to support and maintenance of the network and impacts the cost of sales in our financial statements. The purchase price is net of commercial discounts, some of which are contingent upon future negotiations for further purchases of services, which are probable.

Following the agreement, in accordance with Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment or Disposal of Long Lived Assets , we reviewed the communication network for impairment, in order to assure that the carrying amount of the fixed assets would be recoverable. No impairment loss was required. Following the impairment test, we accelerated the estimated useful life of such equipment to the period when it was anticipated that it would be replaced. The total additional amount of depreciation resulting from this acceleration, for the periods in which such accelerated depreciation has occurred or will occur, was NIS 136 million. As of December 31, 2008, a significant portion of the 3G radio equipment subject to the accelerated depreciation was replaced, resulting in additional depreciation expenses of approximately NIS 74 million in 2008 compared to 2007.

Significant regulatory developments

Our license was amended, effective January 2009, to require us to offer tariff plans based on billing units no longer than one second. As a result, as of January 2009, all of our tariff plans are based on one second billing units. Such regulation may adversely affect our business and revenues.

The final reduction in interconnect tariffs, mandated by the Ministry of Communication s program of required gradual reductions from 2005 to 2008, went into effect on March 1, 2008. This resulted in an approximately 14% reduction in interconnect tariffs and diluted average revenue per minute (including incoming calls) for 2008 compared with 2007. For more information regarding potential and actual regulatory developments impacting our operations and earnings, see Item 4B. Business Overview Regulation .

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Revenues

We derive revenues from the sale of both services and equipment.

Our principal source of revenues is from the sale of cellular network services, primarily network airtime usage fees, and is denominated primarily in shekels. In 2008, as in each of 2007 and 2006, approximately one half of network airtime usage fees were derived from outgoing calls and tariff rate plan fees, with the remainder generated from interconnect fees from other operators, roaming, and data and content services. Data and content revenues excluding SMS messages accounted for 9.5% of service revenues in 2008 compared with 8.0% of service revenues in 2007. This represented a year-on-year 24% increase in data and content revenues excluding SMS messages. Revenues from SMS message services accounted for 5.8% of service revenues in 2008, compared with 4.8% of service revenue in 2007, representing a year-on-year 28% increase in revenues from SMS message services. Other service revenues include revenues from the sale of handset warranties and of land-line and transmission services.

Equipment revenues are derived from sales of handsets, car kits and accessories.

We recognize revenues from network 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

The principal components of our 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 for our antenna and other network sites;
- costs of replacing or repairing damaged handsets;
- content revenue costs paid to the providers of content we offer to our subscribers;
- network maintenance; and
- royalties paid to the Israeli Government under our license.

Selling and Marketing Expenses

The principal components of our selling and marketing expenses are:

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

advertising and promotion; and

sales commissions to dealers.

General and Administrative Expenses

The principal components of our general and administrative expenses are:

provision for bad debts;

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

professional fees and consultancy fees;

depreciation and amortization; and

insurance.

Financial Expenses

The principal components of our financial expenses, net, are:

interest on notes and bank loans;

exchange rate and linkage differences;

financial revenue in respect of receivables (interest charges embedded in handset installment payments);

net hedging costs on foreign currency and CPI exposure;

gains/losses in our severance pay funds; and

credit card commissions.

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 total and 3G subscribers;

average monthly revenue per subscriber ("ARPU");

average monthly minutes of usage per subscriber ("MOU"); and

churn rate.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations below is 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. Revenues from pre-paid calling cards are recognized upon customer s usage of the cards. 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, 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 stand-alone 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 116 million and had the percentage of depreciation increased by 5%, our operating profit would decrease by approximately NIS 66 million. We amortize our license by the straight-line method 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 unamortized 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 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.

We accelerated the estimated useful life of the third party 3G radio equipment existing in our network to be replaced under an agreement with LM Ericsson Israel Ltd. See Business Developments in 2008 Ericsson Agreement above.

As part of our transition to IFRS commencing January 1, 2009, we examined, among other matters, the remaining estimated useful lives of our fixed assets. As a result of this examination, we revised the estimated useful lives of our fixed assets, commencing October 1, 2008. The effect of the revisions on the net income for the year ended December 31, 2008, was immaterial.

Allowance for Doubtful Accounts

We maintain an 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 age 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 84.7%. If we decreased our percentage of the allowance for all aging debts by 15%, our operating profit would increase by NIS 36 million. If we increased such percentage by 15%, our operating profit would decrease by NIS 27 million. 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%, 0.7% and 1.4% for the years ended December 31, 2006, 2007 and 2008, respectively. The increase in bad debt expenses in 2008 reflected principally two factors: firstly, the impact of special campaigns during the first months of number portability in early 2008 that enabled the purchase of handsets directly in the monthly bill; secondly, it is thought that the global economic downturn contributed to the lower collection rates from both business and private customers in 2008 compared with 2007.

Transition to IFRS

Beginning January 1, 2009, we will prepare our consolidated financial statements according to International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The announcement of our first quarter results for 2009, and for subsequent periods, will be based on IFRS, and not on U.S. GAAP.

Accounting reclassifications

We reclassified certain overhead costs, and also gains/losses in our severance pay funds, to financial expenses, net, when preparing our consolidated financial statements for the year ended December 31, 2008. In order to provide comparability, we have performed similar reclassifications in our consolidated financial statements, as set forth in this annual report, for the years ended December 31, 2007 and 2006. However, the reclassifications had no material effect.

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Revenues. In 2008 the Company achieved total net revenues of NIS 6,329.5 million (US$1,502 million), an of 3.5% from NIS 6,113.6 million in 2007.

Revenues from services. Annual service revenues totaled NIS 5,573.2 million (US$ 1,322.5 million) in 2008, representing an increase of 4.6% from NIS 5,328.7million in 2007. The increase was driven primarily by subscriber base growth and an increase in the weight of post-paid subscribers with above average levels of ARPU in our subscriber base , as well as an increase in data and content revenues.

Total network minutes in 2008 increased by 13.0% compared with 2007, resulting mainly from an expanding subscriber base, which, excluding the effect of the decrease from the change in recognizing prepaid subscribers, grew by approximately 3.5% in 2008 , as well as from an approximate 8.6% increase in minutes of use per subscriber. The effect of this increase on service revenues was partially offset by an approximate 7.4% dilution in the average revenue per minute (including incoming calls). The dilution was a result of competitive market pressures; the increase in the weight of business subscribers in our total customer base to 27.1% of the subscriber base at year-end 2008, from 24.6% at year-end 2007, since business subscribers benefit from special tariff rates; and regulatory interventions, the most significant being the reduction of approximately 14% in interconnect tariffs which went into effect on March 1, 2008.

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Data and content revenues, excluding SMS messages, totaled NIS 528.8 million (US$125.5 million) in 2008, accounting for 9.5% of service revenues, up from NIS 425.6 million, representing 8.0% of service revenues, in 2007. Revenues from SMS message services totaled NIS 324.9 million (US$ 77.1 million) in 2008, accounting for 5.8% of service revenues, up from NIS 253.7 million, representing 4.8% of service revenues, in 2007.

Revenues from equipment. Equipment revenues in 2008 totaled NIS 756.3 million (US$ 179.5 million), representing a decrease of 3.6% from NIS 784.9 million in 2007. The decrease was mainly due to the lower number of transactions, partially offset by an increase in the average revenue per sale due to a higher proportion of more advanced and higher cost 3G handset sales compared with 2G handsets.

Gross profit. Gross profit in 2008 was NIS 2,250.4 million (US$ 534.0 million), representing an 11.3% increase from gross profit in 2007 of NIS 2,022.0 million.

Gross profit from services. Annual gross profit from services in 2008 was NIS 2,337.4 million (US$ 554.7 million), an increase of 4.4% from NIS 2,238.6 million in 2007. The increase reflected the higher service revenues, partially offset by a 4.7% increase in the cost of service revenues from NIS 3,090.2 million in 2007 to NIS 3,235.8 million (US$ 767.9 million) in 2008. The increase in cost of service revenue was primarily driven by the additional depreciation expenses of approximately NIS 74 million over 2008 resulting from the accelerated depreciation of equipment to be replaced under an agreement with LM Ericsson Israel Ltd. As a result of the agreement, Ericsson became the sole vendor of our 3G network. In addition, the cost of services revenues reflected higher variable airtime and content costs as a result of higher airtime and content usage. The cost increases were partially offset by efficiency improvements, a decrease in (non-accelerated) depreciation expenses, a lower rate of royalty payments to the Israeli government and the reduction in interconnect tariffs.

Gross loss on equipment. Gross loss on equipment (which reflects revenues from equipment sales less the related cost of goods sold) decreased in 2008 by 59.8% from NIS 216.6 million to NIS 87.0 million (US$ 20.6 million). The decrease was due primarily to a lower number of transactions, as well as the use of more competitive airtime rate plan tariffs that offered customers airtime usage rebates but lower equipment subsidies.

Selling, marketing and general and administrative expenses. Selling, marketing, general and administration (SG&A) expenses totaled NIS 645.2 million (US$ 153.1 million) in 2008, an increase of 3.6% from NIS 623.0 million in 2007. The increase was largely associated with the additional costs resulting from growth in the subscriber base, larger provisions for doubtful accounts from receivables on handset sales and service revenues, and with higher distribution and commission expenses.

Operating profit. As a result of the above, the Company recorded an operating profit in 2008 of NIS 1,605.2 million (US$ 380.9 million), representing an increase of 14.7% from NIS 1,399.0 million in 2007.

Financial expenses, net. Financial expenses, net, increased in 2008 by 30.8%, or NIS 37.1 million, from NIS 120.8 million in 2007 to NIS 157.9 million (US$ 37.5 million) in 2008. The increase was primarily attributable to the increase in expenses resulting from the higher Consumer Price Index (CPI) level of 4.5% in 2008 compared with 2.8% in 2007, and by the NIS 16 million losses in the company s severance pay funds as a result of the recent decline in the markets. These increases were partially offset by an increase of NIS 38 million in financial revenue in respect of receivables. See Note 11f to our consolidated financial statements.

Income before taxes. Income before taxes for 2008 was NIS 1,447.3 million (US$ 343.5 million), up 13.2% compared to NIS 1,278.2 million in 2007.

Taxes on income for 2008 were NIS 395.8 million (US$ 93.9 million), an increase of 17.0% from NIS 338.4 million in 2007. The increase reflected the impact of the cancellation of a tax provision in the amount of NIS 29 million in 2007, partially offset by the impact of the reduction in Israeli corporate tax rate from 29% in 2007 to 27% in 2008. (See Note 9b to our consolidated financial statements.) In December 2008, the Company signed final tax assessments with the Israeli Tax Authorities for the years up to and including 2006, with no material impact on our results of operations, cash flow or financial condition.

Net income. Net income in 2008 was NIS 1,051.5 million (US$ 249.5 million) and earnings of NIS 6.73 (US$ 1.60) per diluted share, representing an 11.9% increase from NIS 939.8 million (earnings of NIS 5.96 per diluted share), in 2007. Excluding the effect of the tax provision cancellation in 2007, net income increased by 15.4% in 2008.

Results of Operations for the Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Revenues. In 2007 the Company achieved total net revenues of NIS 6,113.6 million, an increase of 9.0% from NIS 5,606.7 million in 2006.

Revenues from services. Annual service revenues totaled NIS 5,328.7 million in 2007, representing an increase of 6.0% from NIS 5,027.3 million in 2006. The increase was driven primarily by subscriber base growth, an increase in the weight of post-paid subscribers in our subscriber base, higher average minutes of use, as well as an increase in content and data revenues, partially offset by a decrease in average revenue per minute.

Total network minutes in 2007 increased by 14% compared with 2006, resulting mainly from an expanding subscriber base, which grew by approximately 7.2% in 2007, as well as from an 8% increase in minutes of use per subscriber. The effect of this increase on revenues was partially offset by an 11% dilution in the average tariff per minute (including interconnect tariffs). The dilution was a result of competitive market pressures on tariffs charged to subscribers; the increase in the weight of business subscribers in our total customer base to 24.6% of the subscriber base at year-end 2007, from 22.07% at year-end 2006, since business subscribers benefit from special tariff rates; and regulatory intervention, including the reduction of approximately 10% in interconnect tariffs which went into effect on March 1, 2007, and the regulation restricting our ability to charge for calls directed to voice mail which went into effect January 1, 2007.

Data and content revenues, excluding SMS messages, totaled NIS 425.3 million in 2007, accounting for 8.0% of service revenues, up from NIS 316.1 million, representing 6.3% of service revenues, in 2006. Revenues from SMS message services totaled NIS 253.7 million in 2007, accounting for 4.8% of service revenues, up from NIS 192.5 million, representing 3.8% of service revenues, in 2006.

Revenues from equipment. Equipment revenues in 2007 totaled NIS 784.9 million, representing an increase of 35.5% from NIS 579.4 million in 2006. The increase was caused by increases both in the average revenue per sale, reflecting the higher proportion of more advanced and higher cost 3G handset sales to new and upgrading subscribers, as well as in the total number of handset sales to new and upgrading subscribers.

Gross profit. Gross profit in 2007 was NIS 2,022.0 million, representing an 18.5% increase from gross profit in 2006 of NIS 1,706.4 million.

Gross profit from services. Annual gross profit from services in 2007 was NIS 2,238.6 million, an increase of 15.5% from NIS 1,938.7 million in 2006. The increase reflects the higher service revenues, partially offset by a 0.05% increase in the cost of service revenues from NIS 3,088.6 million in 2006 to NIS 3,090.2 million in 2007. The increase was primarily driven by higher variable airtime and content costs resulting from the growth in airtime and content usage, partially offset by lower costs resulting from efficiency measures taken by the Company, lower depreciation expenses, the decrease in the rate of royalties paid to the Israeli government, as provided for in our operating license, and the lower interconnect tariff subsequent to government regulation in this area.

Gross loss on equipment. Gross loss on equipment decreased in 2007 by 6.8% from NIS 232.4 million to NIS 216.6 million. The decrease is explained by handset revenues (including carkits) increasing more than the increase in the cost of handset sales. The cost of handset sales increased due to the higher proportion of 3G handset sales, as well as the higher total number of sales, while the cost per individual handset declined due to the decrease in the value of the US dollar against the Shekel in 2007.

Selling, marketing and general and administrative expenses. Selling, marketing, general and administration (SG&A) expenses totaled NIS 623.0 million in 2007, an increase of 26.5% from NIS 492.6 million in 2006. The increase was largely related to the additional costs of growing the subscriber base, including higher distribution and commission expenses, and larger provisions for doubtful accounts from receivables on handset sales and service revenues. In addition, the increase included the impact of a one time retirement bonus payment paid to the Company s founding chief executive officer, Mr. Amikam Cohen, of approximately NIS 15 million, as well as payments to additional retiring senior executives.

Operating profit. As a result of the above, the Company recorded an operating profit in 2007 of NIS 1,399.0 million, representing an increase of 15.3% from NIS 1,213.8 million in 2006.

Financial expenses. Financial expenses decreased in 2007 by 25.4%, or NIS 41.1 million, from NIS 161.9 million in 2006 to NIS 120.8 million. The decrease was primarily attributable to an increase in financial income of NIS 21.1 million together with a reduction of NIS 82.8 million in financial and coverage expenses and due to currency fluctuations, offset by an increase of NIS 63.8 million in CPI linkage expenses resulting from the higher CPI level.

Income before taxes. Income before taxes for 2007 was NIS 1,278.2 million, up 21.5% compared to NIS 1,052 million in 2006.

Taxes on income. As of January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax positions; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim-period guidance, among other provisions. On May 2, 2007, the FASB issued FASB Staff Position No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48-1 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Company adopted FSP FIN 48-1 as of January 1, 2007. The Company s policy to include interest and penalties relating to uncertain tax positions, within the provision for income taxes has not changed as a result of implementing FIN 48.

Following the ruling of the Supreme Court, on November 20, 2006 on the matter of Paz Gas Marketing Company Ltd. and others vs. the assessing officer and others, which overturned the rules regarding the recognition of financing expenses, the Company included in its financial statements, beginning for the fourth quarter of 2006 and through the first three quarters of 2007, an additional provision for taxes in the amount of NIS 55 million. This provision was an estimate of the additional tax expense relating to the possibility that part of the financing expenses accrued in the years 2005 and 2006 in respect of a financial debt, which is attributable, inter alia, to the financing of a repurchase of Company shares, will not be recognized as an expense for tax purposes. On October 28 and 29, 2007, the Israeli Supreme Court issued a new ruling readdressing the same issue. The Company re-evaluated the provision in light of the new ruling and decided to reduce the provision of unrecognized tax benefit to an amount of NIS 7 million, according to FIN 48.

Taking into account this reduction in tax provisions, total tax expenses for 2007 were NIS 338.4 million, a decrease of 8.7% from NIS 370.7 million in 2006. The decrease also reflected the lower Israeli corporate tax rate in 2007 of 29% compared with 31% in 2006. In 2008, the Israeli corporate tax rate will decrease further to 27% (see Note 9b to our consolidated financial statements).

Net income. Net income in 2007 was NIS 939.8 million and earnings of NIS 5.96 per diluted share, representing a 37.7% increase from NIS 682.3 million (earnings of NIS 4.41 per diluted share), in 2006.

During 2007, our net active subscribers increased by 192,000, or 7.2%. The Company s subscriber base at the end of December 2007 was approximately 2,860,000, accounting for an approximate market share of 32%, including approximately 703,000 business subscribers or 24.6% of the base, approximately 1,365,000 postpaid private subscribers, or 47.7% of the base, and approximately 792,000 prepaid subscribers, or 27.7% of the base. Of the Company s subscriber base, approximately 633,000 were 3G subscribers. Net new active subscribers in the business sector accounted for approximately 51% of net new active subscribers in the year.

The annual churn rate in 2007 decreased to 15.0% from 15.6% in 2006. The decrease was primarily related to the business and private postpaid sectors.

Average monthly usage per subscriber (MOU) for 2007 was 336 minutes, an increase of 8% compared with 311 minutes in 2006. Average monthly revenue per subscriber (ARPU) in 2007 was NIS 158, with no change from the 2006 amount, despite the reduction in interconnection charges mandated by the Ministry of Communications in March 2007.

Seasonality

Our service revenues and profitability show some seasonal trends over the year, but the overall impact is not considered to be material. Generally, airtime minutes and consequently airtime revenues are affected by the number of daylight hours in the day, which varies throughout the year. In addition, airtime revenues are lower in February which is a shorter than average month and during the Jewish holiday period, but are higher in the summer months as a result of roaming charges from increased travel abroad by subscribers and from foreign roamers using our network. There is no assurance that these trends will continue in the future.

	Three months ended			
NIS in thousands	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**
Service Revenues				
2007	1,258,315	1,307,610	1,401,057	1,361,757
2008	1,342,485	1,375,938	1,458,137	1,396,684

Impact of Inflation and Exchange Rate Fluctuations

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, in recent years, approximately one quarter of our operating expenses (excluding depreciation), including a substantial majority of our handset purchases, were linked to non-shekel currencies, mainly the US dollar. These expenses related principally to the acquisition of handsets, where the price paid by us is based mainly on US dollars. 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, mainly US dollars. Thus, although the relative decline in value of the US dollar against the shekel has helped offset increases in our financial and operating expenses in recent years, 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. We hedge a portion of our foreign currency commitments. See Item 11. Quantitative and Qualitative Disclosures About Market Risk .

Although we have the ability to borrow under our bank credit facility in US dollars, our current borrowings are in shekels, and most of our financial debt (shekel bank borrowings and our Notes due 2012) are linked to the consumer price index (CPI). If the CPI increases, we may not be permitted to raise our tariffs in a manner that would fully compensate for any increase in our financial expenses. In 2008, the CPI increased 4.5%, causing an increase of NIS 101 million in our financial expenses, net, compared to a CPI increase of 2.8% in 2007, which caused an increase of NIS 64 million in financial expenses, net. The CPI for each month is published on the 15th day of the following month; references above to the annual change in CPI for a given year is the change from the CPI published on the 15th day of December of the preceding year to the CPI published on the 15th day of December of the relevant year, which for the purposes of this annual report, covers the twelve months beginning January 1 through December 31of the year in question. To hedge the impact of increases in the CPI, we enter into derivative transactions. See Item 11. Quantitative and Qualitative Disclosures about Market Risk .

5B. Liquidity and Capital Resources

The discussion below first describes our financial indebtedness (Notes due 2012 and total financial debt) and capital expenditures, as well as our dividend payment and share repurchase policies, and then discusses our main sources of liquidity.