

PARTNER COMMUNICATIONS CO LTD

Form 20-F

April 30, 2004

Table of Contents

As filed with the Securities and Exchange Commission April 30, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

COMMISSION FILE NUMBER 1-14968

PARTNER COMMUNICATIONS COMPANY LTD.
(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

8 AMAL STREET
AFEQ INDUSTRIAL PARK
ROSH-HA AYIN 48103
ISRAEL

(Address of principal executive offices)

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

NONE

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

Title of class

American Depositary Shares
Ordinary Shares*

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

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

NONE

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

ORDINARY SHARES OF NIS 0.01 EACH 182,695,574

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 NO

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

ITEM 17 ITEM 18

TABLE OF CONTENTS

<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	5
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	5
<u>ITEM 3. KEY INFORMATION</u>	6
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	32
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	80
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	95
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	118
<u>ITEM 8. FINANCIAL INFORMATION</u>	132
<u>ITEM 9. THE OFFER AND LISTING</u>	136
<u>ITEM 10. ADDITIONAL INFORMATION</u>	139
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	156
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	159
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	159
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	159
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	159
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	159
<u>ITEM 16B. CODE OF ETHICS</u>	160
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	160
<u>ITEM 17. FINANCIAL STATEMENTS</u>	161
<u>ITEM 18. FINANCIAL STATEMENTS</u>	161
<u>ITEM 19. EXHIBITS</u>	162
<u>GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS</u>	165
<u>Exhibit 4.(a).33</u>	
<u>Exhibit 4.(a).34</u>	
<u>Exhibit 4.(a).35</u>	
<u>Exhibit 4.(a).36</u>	
<u>Exhibit 4.(a).37</u>	
<u>Exhibit 4.(a).38</u>	
<u>Exhibit 4.(a).48</u>	
<u>Exhibit 8</u>	
<u>Exhibit 12.(a).1</u>	
<u>Exhibit 12.(a).2</u>	

Exhibit 13.(a).1

Exhibit 14.(a).1

Table of Contents

INTRODUCTION

As used herein, references to we, our, us, Partner or the Company are references to Partner Communications Company Ltd. and to its wholly-owned subsidiary, Partner Future Communications 2000 Ltd., 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 New Israeli Shekels. This annual report contains translations of NIS amounts into US dollars at specified rates solely for the convenience of the reader. No representation is made that the amounts referred to in this annual report as convenience translations could have been or could be converted from NIS into US dollars at these rates, at any particular rate or at all. The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the representative exchange rate on December 31, 2003 of NIS 4.379= 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 .

Table of Contents

FORWARD-LOOKING STATEMENTS

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

Words such as believe, anticipate, expect, intend, seek, will, plan, could, may, project, goal, expressions 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 located elsewhere in this annual report regarding our future performance, plans to increase revenues or margins or preserve or expand market share in existing or new markets, reduce expenses and any statements regarding other future events or our future prospects, are forward-looking statements.

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

uncertainties about the degree of growth in the number of consumers in Israel using wireless personal communications services and the growth in the Israeli population;

the risks associated with the implementation of a third generation network and business strategy, including risks relating to the operations of new systems and technologies, substantial expenditures required and potential unanticipated costs, uncertainties regarding the adequacy of suppliers on whom we must rely to provide both network and consumer equipment and consumer acceptance of the products and services to be offered;

the impact of existing and new competitors in the market in which we compete, including competitors that may offer less expensive products and services, desirable or innovative products, technological substitutes, or have extensive resources or better financing;

the effects of vigorous competition in the market in which we operate, which may decrease prices charged, increase churn and change our customer mix, profitability and average revenue per user;

Table of Contents

the availability and cost of capital and the consequences of increased leverage;

the effects of the high degree of regulation in the telecommunications market in which we operate;

fluctuations in foreign exchange rates;

the results of litigation filed or that may be filed against us;

uncertainties with respect to whether our investment in Matav will happen, on what terms, and whether we will be able to respond successfully to the resulting challenges or achieve any of the expected benefits; and

the possibility of the market in which we compete being impacted by changes in political, economic or other factors, such as monetary policy, legal and regulatory changes or other external factors over which we have no control;

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

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

Table of Contents

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Table of Contents**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, 2003 prepared in accordance with US GAAP. The selected financial data for each of the years in the three-year period ended December 31, 2003 and at December 31, 2003 and 2002 are derived from our consolidated financial statements set forth elsewhere in this annual report. The selected financial data for each of the years in the two-year period ended December 31, 2000 and at December 31, 2001, 2000 and 1999 are derived from our audited financial statements not appearing in this annual report. We were incorporated in September 1997 and began full commercial operations on January 1, 1999. 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,					Convenience translation into US \$
	1999	2000	2001	2002	2003	
New Israeli Shekels						
In thousands (except per share data)						
Statement of Operations Data						
Revenues, net						
Services	839,596	1,969,176	2,972,079	3,766,584	4,117,887	940,371
Equipment	59,621	134,683	277,270	287,979	349,832	79,889
	<u>899,217</u>	<u>2,103,859</u>	<u>3,249,349</u>	<u>4,054,563</u>	<u>4,467,719</u>	<u>1,020,260</u>
Cost of revenues						
Services	920,972	1,653,454	2,187,612	2,499,534	2,586,707	590,707
Equipment	562,089	508,053	531,551	569,924	549,749	125,542
	<u>1,483,061</u>	<u>2,161,507</u>	<u>2,719,163</u>	<u>3,069,458</u>	<u>3,136,456</u>	<u>716,249</u>
Gross profit (loss)	(583,844)	(57,648)	530,186	985,105	1,331,263	304,011
Selling and marketing expenses	265,124	327,881	292,960	308,079	314,008	71,708

General and administrative expenses	<u>158,588</u>	<u>154,637</u>	<u>134,282</u>	<u>143,594</u>	<u>162,387</u>	<u>37,083</u>
Operating profit (loss)	(1,007,556)	(540,166)	102,944	533,432	854,868	195,220
Financial expenses, net	290,397	228,609	400,927	445,180	321,710	73,467
Loss on impairment of investments in non-marketable securities			<u>8,862</u>	<u>4,054</u>	<u>3,530</u>	<u>806</u>
Income (loss) before tax benefit	<u>(1,297,953)</u>	<u>(768,775)</u>	<u>(306,845)</u>	<u>84,198</u>	<u>529,628</u>	<u>120,947</u>
Tax benefit					<u>633,022</u>	<u>144,559</u>
Income (loss) before cumulative effect of a change in accounting principles	(1,297,953)	(768,775)	(306,845)	84,198	1,162,650	265,506
Cumulative effect, at beginning of year, of a change in accounting principles			<u>3,483</u>			
Net income (loss) for the year	<u>(1,297,953)</u>	<u>(768,775)</u>	<u>303,362</u>	<u>84,198</u>	<u>1,162,650</u>	<u>265,506</u>

Table of Contents

	Year ended December 31,					
	1999	2000	2001	2002	2003	2003
	New Israeli Shekels					Convenience translation into US \$
	In thousands (except per share data)					
Earnings (loss) per ordinary share and per ADS						
Basic:						
Before cumulative effect	(8.86)	(4.30)	(1.72)	0.47	6.39	1.46
Cumulative effect			0.02			
	<u>(8.86)</u>	<u>(4.30)</u>	<u>(1.70)</u>	<u>0.47</u>	<u>6.39</u>	<u>1.46</u>
Diluted:						
Before cumulative effect	(8.86)	(4.30)	(1.72)	0.46	6.34	1.45
Cumulative effect			0.02			
	<u>(8.86)</u>	<u>(4.30)</u>	<u>(1.70)</u>	<u>0.46</u>	<u>6.34</u>	<u>1.45</u>
Weighted average number of shares outstanding						
Basic:	146,481,482	178,888,888	178,909,274	179,984,090	181,930,803	181,930,803
	<u>146,481,482</u>	<u>178,888,888</u>	<u>178,909,274</u>	<u>179,984,090</u>	<u>181,930,803</u>	<u>181,930,803</u>
Diluted:	146,481,482	178,888,888	178,909,274	183,069,394	183,243,157	183,243,157
	<u>146,481,482</u>	<u>178,888,888</u>	<u>178,909,274</u>	<u>183,069,394</u>	<u>183,243,157</u>	<u>183,243,157</u>
Other Financial Data						
Capital expenditures, net	823,995	544,927	599,493	556,376	232,293	53,047
	<u>823,995</u>	<u>544,927</u>	<u>599,493</u>	<u>556,376</u>	<u>232,293</u>	<u>53,047</u>
EBITDA(1)	(581,959)	(58,741)	656,369	1,052,240	1,379,830	315,102

**Statement of Cash
Flows Data**

Net cash provided by (used in) operating activities	(835,949)	(353,272)	422,548	682,191	1,031,492	235,554
Net cash used in investing activities	(690,396)	(809,731)	(629,061)	(815,968)	(376,769)	(86,039)
Net cash provided by (used in) financing activities	1,924,930	748,775	210,916	129,865	(652,309)	(148,963)

**Balance Sheet Data
(at year end)**

Current assets	774,242	588,545	631,148	816,416	865,319	197,607
Investments and long-term receivables	8,112	119,524	140,969	45,991	72,630	16,586
Fixed assets, net	1,216,765	1,507,045	1,749,052	1,864,511	1,694,584	386,980
License and deferred charges, net	1,436,949	1,289,933	1,112,959	1,269,348	1,325,948	302,797
Deferred income taxes					413,752	94,486
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	3,436,068	3,505,047	3,634,128	3,996,266	4,372,233	998,456
Current liabilities(2)	571,261	583,243	1,194,704	735,153	760,256	173,614
Long-term liabilities(2)	2,063,815	2,832,964	2,633,200	3,357,497	2,536,413	579,222
Total liabilities	2,635,076	3,416,207	3,827,904	4,092,650	3,296,669	752,836
Shareholders' equity (capital deficiency)	800,992	88,840	(193,776)	(96,384)	1,075,564	245,620
Total liabilities and shareholders' equity	3,436,068	3,505,047	3,634,128	3,996,266	4,372,233	998,456

Page 7

Table of Contents

- (1) EBITDA represents earnings (loss) before interest, taxes, depreciation and amortization. EBITDA is presented because it is a measure commonly used in the telecommunications industry and is presented solely to enhance the understanding of our operating results. EBITDA, however, should not be considered as an alternative to operating income or income for the year as an indicator of our operating performance. Similarly, EBITDA should not be considered as an alternative to cash flows 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. The EBITDA figures presented above are substantially the same as those resulting from the calculation of Consolidated Adjusted EBITDA as required under the indenture governing our 13% senior subordinated notes due 2010.
- (2) See Notes 5, 6 and 7 to our consolidated financial statements for information regarding long-term liabilities and current maturities of long-term bank loans.

Table of Contents**Year ended December 31,**

	1999	2000	2001	2002	2003	2003
	New Israeli Shekels					Convenience translation into US \$
	In thousands (except per share data)					
Reconciliation Between Operating Cashflows and EBITDA						
Net cash provided by (used in) operating activities	(835,949)	(353,272)	422,548	682,191	1,031,492	235,554
Liability for employee rights upon retirement	(9,583)	(11,581)	(18,736)	(18,632)	(15,540)	(3,549)
Accrued interest, exchange and linkage differences on long-term liabilities	(141,663)	13,214	(54,522)	(91,027)	67,438	15,400
Amount carried to deferred charges		7,489	22	3,805		
Accrued interest, exchange and linkage differences on security deposit		2,574	6,590	6,925	(8,877)	(2,027)
Sundry	(2,560)	(181)				
Increase (Decrease) in accounts receivable:						
Trade	204,732	197,308	55,944	56,638	(22,721)	(5,189)
Other	17,180	(23,970)	14,235	8,056	5,557	1,260
Decrease (Increase) in accounts payable and accruals:						
Trade	(133,238)	(93,499)	(57,271)	(31,909)	93,444	21,339
Shareholder current account	16	(20)	2,230			
Other	(8,063)	(84,685)	(68,068)	(14,796)	(47,541)	(10,857)
Increase (Decrease) in inventories	43,921	65,614	(36,859)	12,996	(34,647)	(7,912)
Increase in asset retirement obligation					(1,228)	(280)
Financial Expenses(*)	283,248	221,906	393,739	437,993	312,453	71,354
Cumulative effect, at beginning of year and change in accounting principles				(3,483)		
EBITDA	(581,959)	(58,741)	656,369	1,052,240	1,379,830	315,102

(*) Financial expenses excluding any charge for the amortization of pre-launch financial costs.

Table of Contents

	At December 31,								
	Year ended December 31					Three months ended			
	1999	2000	2001	2002	2003	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
Industry Data									
Estimated population of Israel (in thousands)(1)						6,500	6,650	6,757	
Estimated Israeli mobile telephone subscribers (in thousands)(2)						5,470	6,333	6,674	
Estimated Israeli mobile telephone penetration(3)						84%	95%	99%	
Partner Data									
Subscribers (000 s) (at period end)(4)	355	834	1,458	1,837	2,103	1,894	1,949	2,032	2,103
Pre-paid		132	389	540	639	553	568	606	639
Post-paid (private)	267	526	829	1,004	1,117	1,036	1,064	1,094	1,117
Post-paid (business)	88	176	240	293	347	306	317	332	347
Share of total Israeli subscribers (at period end)(5)	13%	21%	27%	29%	31%	29%	29%	30%	31%
Average monthly usage per subscriber (mins.)(6)	456	392	318	280	277	267	277	286	276
Average monthly revenue per subscriber including inroaming (NIS)(7)	393	306	214	183	171	164	171	181	170
Pre-paid			151	127	114	113	114	116	113
Post-paid (private)			192	167	154	147	155	164	152
Post-paid (business)			354	343	333	318	327	355	331
Churn rate(8)	6.8%	5.5%	5.8%	10.9%	13.6%	4.0%	3.5%	3.0%	3.2%
Subscriber acquisition costs per subscriber (NIS)(9)	1,464	819	458	470	362	426	452	289	298
Estimated coverage of Israeli population (at period end)(10)	96%	97%	97%	97%	97%	97%	97%	97%	97%
Number of operational base stations (at period end)	846	1,355	1,882	2,035	2,138	2,065	2,104	2,120	2,138
Number of microsites out of total number of operational base	46	347	703	726	729	738	753	756	729

stations (at period end)(11)										
Number of employees (full time equivalent) (at period end)(12)	1,453	2,131	2,523	2,685	2,769	2,733	2,748	2,744	2,769	

- (1) The estimated population of Israel at December 31, 2001 is published by the Central Bureau of Statistics in Israel. The figures for 2002 and 2003 are the Company's estimates.
- (2) We have estimated the total number of Israeli mobile telephone subscribers from information contained in published reports issued by, and public statements made by, Pelephone and Cellcom or by their shareholders and from Partner subscriber data at December 31, 2001, 2002 and 2003. The 2001 figure

Table of Contents

for MIRS is our estimate. As MIRS received a general license on February 5, 2001 its subscribers have not been included in the Israeli subscriber count in prior years. MIRS's entire subscriber base has been included in the Israeli subscriber count from the date on which MIRS received its license.

- (3) Total number of estimated Israeli mobi