

PARTNER COMMUNICATIONS CO LTD
Form 20-F
March 21, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
ANNUAL REPORT
FILED PURSUANT TO SECTION 12, 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

As filed with the Securities and Exchange Commission on March 21, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

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

OR

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 Select Market
Ordinary Shares, nominal value NIS 0.01 per share*	The NASDAQ Global Select 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 155,249,176

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

YES NO

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 NO

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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 Accelerated Filer Non-Accelerated Filer

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

ITEM 18

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

NO

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>	5
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	37
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	65
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	65
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	90
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	106
<u>ITEM 8. FINANCIAL INFORMATION</u>	110
<u>ITEM 9. THE OFFER AND LISTING</u>	112
<u>ITEM 10. ADDITIONAL INFORMATION</u>	113
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	123
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	126
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	126
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	126
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	126
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	127
<u>ITEM 16B. CODE OF ETHICS</u>	127
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	127
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	128
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	128
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	128
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	128
<u>ITEM 17. FINANCIAL STATEMENTS</u>	128
<u>ITEM 18. FINANCIAL STATEMENTS</u>	128

<u>ITEM 19. EXHIBITS</u>	129
<u>GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS</u>	131

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), and as of March 3, 2011 (the date of acquisition) 012 Smile Telecom 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,” “USD” and “dollars” are to United States dollars, and references to “NIS” and “shekels” are to New Israeli Shekels. We maintain our financial books and records in 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 December 31, 2010, of NIS 3.549 = 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 have provided a glossary at the end of this document for certain technical terms and abbreviations used herein and in our industry.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Our financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (“IFRS”) published by the International Accounting Standards Board (“IASB”). 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” and similar 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 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

For the years ended December 31, 2008, 2009 and 2010, we have prepared our consolidated financial statements in accordance with the International Financial Reporting Standards (“IFRS”) published by the International Accounting Standards Board (“IASB”).

On January 1, 2008, the transition date to IFRS, the Company adopted an exemption provided in IFRS1 which allows the Company to measure its property and equipment as of the transition date to IFRS at fair value, and to use this value as its deemed cost as of that date. The deemed cost was based upon an appraisal, performed by management with the assistance of independent appraisers. The appraisal was based on considering the different elements and components of the property and equipment, and assigning them the appropriate estimation of useful life and fair value. The fair value on January 1, 2008 of property and equipment was NIS 1,690 million.

The tables below at and for the years ended December 31, 2008, 2009 and 2010, set forth selected consolidated financial data under IFRS. The selected financial information is derived from our consolidated financial statements, which have been audited by Kesselman & Kesselman, independent certified public accountants in Israel and a member of PricewaterhouseCoopers International Limited. The audited consolidated financial statements at and for the years ended December 31, 2008, 2009 and 2010, appear at the end of this report.

The tables below at and for the years ended December 31, 2006, 2007 and 2008, set forth selected consolidated financial information under U.S. GAAP, which has been derived from our previously published audited consolidated financial statements at and for the years ending on such dates.

IFRS	Year ended December 31,			
	2008	2009	2010	2010
	New Israeli Shekels in millions (except per share data)			US\$ in millions (1)
Consolidated Statement of Income Data				
Revenues	6,302	6,079	6,674	1,880
Cost of revenues	3,868	3,770	4,093	1,153
Gross profit	2,434	2,309	2,581	727
Selling and marketing Expenses	388	387	479	135
General and administrative Expenses	284	290	306	86
Other income - Net	64	69	64	18
Operating profit	1,826	1,701	1,860	524
Finance income	30	28	28	8
Finance expenses	214	204	209	59
Finance costs, net	184	176	181	51
Profit before income tax	1,642	1,525	1,679	473
Income tax expenses	444	384	436	123
Profit for the year	1,198	1,141	1,243	350
Earnings per ordinary share and per ADS				
Basic:	7.71	7.42	8.03	2.26
Diluted	7.65	7.37	7.95	2.24
Weighted average number of shares outstanding (in thousands)				
Basic:	155,350	153,809	154,866	154,866
Diluted:	156,520	154,817	156,296	156,296

Edgar Filing: PARTNER COMMUNICATIONS CO LTD - Form 20-F

IFRS	Year ended December 31,			
	2008	2009	2010	2010
	New Israeli Shekels in millions (except per share data)			US\$ in millions (1)
Other Financial Data				
Capital expenditures (2)	589	522	435	123
EBITDA(3)	2,298	2,304	2,570	724
Dividend per share (4)	5.45	6.86	7.85	2.21
Capital reduction (4)	-	-	9.04	2.55
Statement of Cash Flow Data				
Net cash provided by operating activities	1,915	1,753	1,958	552
Net cash used in investing activities	(514)	(732)	(486)	(139)
Net cash used in financing activities	(1,365)	(876)	(1,480)	(416)
Balance Sheet Data (at year end)				
Current assets	1,472	1,807	1,830	515
Non current assets	3,693	3,816	3,797	1,070
Advance payment in respect of the acquisition of 012 smile			30	8
Property and equipment	1,935	2,064	2,058	580
License and other intangible assets	1,260	1,260	1,077	304
Deferred income taxes	81	14	-	-
Derivative financial instruments	-	4	-	-
Total assets	5,165	5,623	5,627	1,585
Current liabilities (5)	1,734	1,915	1,826	514
Long-term liabilities (5)	1,699	1,746	3,175	894
Total liabilities	3,433	3,661	5,001	1,408
Shareholders' equity	1,732	1,962	626	177

Total liabilities and shareholders' equity	5,165	5,623	5,627	1,585
--	-------	-------	-------	-------

7

US. GAAP

Year ended December 31,
2006 2007 2008
New Israeli Shekels in millions
(except per share data)

Statement of Operations Data			
Revenues, net			
Services	5,027	5,329	5,546
Equipment	580	785	756
	5,607	6,114	6,302
Cost of revenues			
Services	3,088	3,090	3,209
Equipment	812	1,002	843
	3,900	4,092	4,052
Gross profit	1,706	2,022	2,250
Selling and marketing Expenses	309	392	389
General and administrative Expenses	184	231	256
Operating profit	1,214	1,399	1,605
Financial expenses, net	162	121	158
Loss on impairment of investments in non-marketable securities	-	-	-
Income before tax	1,052	1,278	1,447
Tax expenses	371	338	396
Income before cumulative effect of a change in accounting Principles	681	940	1,051
Cumulative effect, at beginning of year, of a change in accounting Principles	1	-	-
Net income for the year	682	940	1,051

US. GAAP	Year ended December 31,		
	2006	2007	2008
New Israeli Shekels in millions (except per share data)			
Earnings per ordinary share and per ADS			
Basic:			
Before cumulative effect	4.43	6.01	6.77
Cumulative effect	0.01	-	-
	4.44	6.01	6.77
Diluted:			
Before cumulative effect	4.40	5.96	6.73
Cumulative effect	0.01	-	-
	4.41	5.96	6.73
Weighted average number of shares outstanding (in thousands)			
Basic:	153,634	156,415	155,350
Diluted:	154,678	157,787	156,520
Other Financial Data			
Capital expenditures (2)	507	499	590
EBITDA(3)	1,846	2,009	2,257
Dividend per share (4)	2.63	4.77	5.45
Statement of Cash Flow Data			
Net cash provided by operating activities	1,216	1,446	1,839
Net cash used in investing activities	(442)	(529)	(531)
Net cash provided by used in financing activities	(701)	(846)	(1,273)
Balance Sheet Data (at year end)			
Current assets	1,274	1,520	1,542
Investments and long-term receivables	356	535	499
Fixed assets, net	1,748	1,728	1,756
License and deferred charges, net	1,247	1,154	1,061
Deferred income taxes	76	94	110
Total assets	4,701	5,031	4,968

Current liabilities (5)	1,028	1,157	1,734
Long-term liabilities (5)	2,418	2,219	1,794
Total liabilities	3,446	3,376	3,529
Shareholders' equity	1,255	1,655	1,439
Total liabilities and shareholders' equity	4,701	5,031	4,968

- (1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2010, of NIS 3.549 = 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) Capital Expenditure represents additions to property and equipment and computer software.
- (3) EBITDA as reviewed by the Chief Operator Decision Maker (CODM), represents earnings before interest (finance costs, net), taxes, depreciation and amortization, as a measure of operating profit. EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies. EBITDA may not be indicative of the Company's 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.
- (4) The dividend per share was calculated in respect of the period for which it was announced. For the year 2010, the Company declared a final dividend on February 23, 2011 (with respect to the fourth quarter of 2010), which in the aggregate amounted to approximately NIS 1,217 million (US\$ 343 million), or NIS 7.85 per share. Further, NIS 1,400 million (US\$ 394 million) or NIS 9.04 per share was distributed to shareholders in March 2010 following the reduction of the shareholders' equity as approved by the Courts (see "Item 5A. Operating Results - Capital Reduction").
- (5) See Notes 14, 15, and 16 to our consolidated financial statements for information regarding long-term liabilities and current maturities of long-term bank loans.

The tables below at and for the years ended December 31, 2008, 2009 and 2010, set forth selected consolidated financial data under IFRS.

IFRS	Year ended December 31,			2010 US \$ in millions (1)
	2008	2009	2010	
	New Israeli Shekels in millions			
Reconciliation Between Operating Cash flow and EBITDA				
Net cash provided by operating activities	1,915	1,753	1,958	552
Liability for employee rights upon retirement	(5)	(1)	(8)	(2)
Accrued interest, exchange and linkage differences on long-term liabilities	(182)	(167)	(160)	(45)
Increase (Decrease) in accounts receivable:				
Trade	(47)	229	214	60
Other (*)	(4)	16	34	10
Decrease (Increase) in accounts payable and accruals:				
Trade	(10)	(43)	40	11
Parent group-trade	(1)	17	(38)	(11)
Other (*)	48	(43)	(15)	(4)
Increase (decrease) in inventories	(8)	33	(57)	(16)
Decrease (Increase) in asset retirement obligation	(1)	1	(1)	-
Income tax paid	420	339	426	120
Financial expenses (**)	173	170	177	49
EBITDA	2,298	2,304	2,570	724

The tables below at and for the years ended December 31, 2006, 2007 and 2008 set forth selected financial information under U.S. GAAP.

US. GAAP	Year ended December 31,		
	2006	2007	2008
New Israeli Shekels in millions			
Reconciliation Between Operating Cash flow and EBITDA			
Net cash provided by operating activities	1,216	1,446	1,839
Liability for employee rights upon retirement	(11)	(18)	(16)
Accrued interest, exchange and linkage differences on long-term liabilities	5	(60)	(94)
Amount carried to deferred charges	-	-	-
Gain (loss) from assets in respect of severance pay funds	5	6	(16)
Increase (Decrease) in accounts receivable:			
Trade	255	329	(47)
Other (*)	311	2	(13)
Decrease (Increase) in accounts payable and accruals:			
Trade	58	(101)	(9)
Related parties	(5)	12	(1)
Other (*)	(50)	276	476
Decrease (Increase) in inventories	(87)	9	(8)
Decrease (Increase) in asset retirement obligation	(1)	(1)	(1)
Financial expenses (**)	150	109	147
EBITDA	1,846	2,009	2,257

(1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2010, of NIS 3.549 = US\$1.00 as published by the Bank of Israel, unless otherwise specified. See "Item 3A. Key Information – Selected Financial Data – Exchange Rate Data".

(*) Excluding provision for tax expenses.

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

	At December 31,				
	2008	2009	2010		
Industry Data					
Estimated population of Israel (in millions) (1)	7.4	7.5	7.7		
Estimated Israeli cellular telephone subscribers (in millions) (2)	9.1	9.5	9.8		
Estimated Israeli cellular telephone penetration (3)	124%	126%	128%		
	Year ended December 31,				
	2006	2007	2008	2009	2010
Partner Data					
Cellular subscribers (000's) (at period end) (4)	2,668	2,860	2,898	3,042	3,160
Pre-paid cellular subscribers (000's) (at period end) (4)	781	792	745	811	870
Post-paid cellular subscribers (000's) (at period end) (4)	1,887	2,068	2,153	2,231	2,290
Share of total Israeli cellular subscribers (at period end) (5)	32%	32%	32%	32%	32%
Average monthly usage per cellular subscriber ("MOU") (mins.) (6)	311				