

PARTNER COMMUNICATIONS CO LTD
Form 6-K
May 03, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15a-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated

May 3, 2011

Partner Communications Company Ltd.
(Translation of Registrant's Name Into English)

8 Amal Street
Afeq Industrial Park
Rosh Ha'ayin 48103
Israel

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-)

This Form 6-K is incorporated by reference into the Company's Registration Statements on Form S-8 filed with the Securities and Exchange Commission on December 4, 2002 (Registration No. 333-101652), September 5, 2006 (Registration No. 333-137102) and on September 11, 2008 (Registration No. 333-153419)

Attached hereto and incorporated by reference herein are portions (English language sections) of a shelf offering report made public in Israel by Partner Communications Company Ltd. ("Partner") in connection with Partner's offering of Series D and Series E Notes in Israel. The attached updates information regarding Partner previously disclosed in its public filings with the SEC and discusses new information not previously disclosed in its public filings with the SEC, including risk factors.

The offering of the securities pursuant to the Shelf Offering Report was made only in Israel. The securities have not and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation "S" promulgated under the Securities Act) without registration under the Securities Act or an exemption from the registration requirements of the Securities Act.

This Form 6-K shall not constitute an offer to sell or the solicitation of an offer to buy any securities.

14. Information about the Offering and the Company

14.1 Forward Looking Statements

Some of the information contained or incorporated by reference in this shelf offering report and in the shelf prospectus filed with the Israel Securities Authority (ISA) on September 3, 2009 (the "Initial Shelf Prospectus", and as amended on May 23, 2010 and on September 20, 2010, the "Amended Shelf Prospectus", and together with the Initial Shelf Prospectus, the "Shelf Prospectus") contains 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 shelf offering report and in the Shelf Prospectus, including the statements in "14.5 Risk Factors" below and in "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" in our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (the "2010 20-F"), incorporated by reference into this shelf offering report and in the Shelf Prospectus, and elsewhere in this shelf offering report and the Shelf Prospectus and in the 2010 20-F 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 "14.5 Risk Factors" below and "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 our 2010 20-F incorporated by reference into this shelf offering report and in the Shelf Prospectus. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this shelf offering report and in the Shelf Prospectus 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.

14.2 Summary Information Regarding the Company

You should read the following summary together with the more detailed information regarding us and the securities being offered hereby, including the risks discussed under the heading "14.5 Risk Factors," contained in this shelf offering report. You should also read carefully the consolidated financial statements and notes thereto and the other information about us that is incorporated by reference in this shelf offering report and in the Shelf Prospectus, including our 2010 20-F and our Form 6-K furnished to the Securities and Exchange Commission ("SEC") on April 14, 2011 regarding 012 Smile Telecom Ltd.'s financial results for the year ended December 31, 2010 and containing our unaudited pro forma condensed consolidated statement of financial position as of December 31, 2010 prepared as though our acquisition of 012 Smile Telecom Ltd. had occurred as of December 31, 2010 and our unaudited pro forma condensed consolidated statement of income of the Company for the year ended December 31, 2010 prepared as though our acquisition of 012 Smile Telecom Ltd. occurred as of January 31, 2010.

Our Company

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, 2010 we had approximately 3.16 million subscribers, representing an estimated 32% of total Israeli cellular telephone subscribers at those dates. During the twelve months ended December 31, 2010, we increased our customer base by approximately 3.9% with approximately 118,000 net active new subscribers joining the Company in 2010, compared to 144,000 net new subscribers in 2009. At December 31, 2010, approximately 72.5% of our customer base (approximately 2,290,000 subscribers) was represented by post-paid subscribers who subscribe to post-paid tariff plans and 27.5% (approximately 870,000 subscribers) by subscribers who subscribe to pre-paid tariff plans. As of December 31, 2010, we also had more than 1,549,000 3G customers (included in the subscriber data above).

Beginning for the year 2009, we have organized our business into two segments:

- the cellular business segment, our core business, which represents the substantial majority of our total revenues. The cellular business segment includes all services provided over our cellular networks including airtime, interconnect, roaming and content services. In addition, the cellular business segment's activities include sales of relevant equipment including cellular handsets, datacards, modems (including built-in modems in laptops) and related equipment and accessories; and
- the fixed line business segment, which includes a number of services provided over fixed line networks including transmission services; Primary Rate Interface ("PRI") lines for business sector customers, Voice over Broadband telephony services ("VOB"), and Internet Service Provider services ("ISP"). Approximately 63,000 VoB and ISP subscribers joined the company during the ramp up period in 2009 and as of December 31, 2010, the Company had approximately 115,000 fixed line and ISP subscribers (subscribers to both cellular and fixed line services are counted separately for each service for the purposes of subscriber count).

We market our services under the orange brand, which is licensed to us and 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 2010, we were named by Globes, a leading Israeli business daily newspaper, as the number-one communications brand in Israel for the eighth consecutive year. In 2010, 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 99% of the Israeli population at year-end 2010. We currently operate our GSM network in the 900 MHz and 1800 MHz bands and the UMTS network in the 2100 Mhz band. 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.

Our principal executive offices are located at 8 Amal Street, Afeq Industrial Park, Rosh Ha’ayin 48103, Israel (telephone: 972-54-7814-888).

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:

- Evolve into a Diversified Multi-service Communications and Media Service Provider. We are continuing to broaden and diversify our portfolio of products and services to evolve into a diversified multi-service communications and media service provider. In addition to our core business providing cellular telecommunications services, our services offering range now includes fixed-line telephony, transmission services, ISP services and other accompanying telecom and media services. The recent acquisition of 012 Smile Telecom Ltd. (“012 Smile”) will enable us to continue to focus on our current core business while 012 Smile will continue to focus on its current International Long Distance (“ILD”), ISP and VOB businesses. We also intend to further 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.

- **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 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.
- **Maintain Strong Branding.** We believe that a focused marketing strategy based upon strong branding for our products and services has substantially reinforced our subscriber growth and loyalty. We intend to continue to promote a strong brand. We also intend to support our branded image by continuing to focus on customer service, innovation and advanced technology.

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:

- **Wide variety of communication products.** We believe that our offering of VoB, ISP and VOD services, as well as our ILD services which will be provided by 012 Smile, strengthens 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 bundled services of other players, increase customer loyalty, and serve as an additional source of revenue.
- **Focus on Customer Service.** We believe we provide quality 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.** 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.
- **Strong Brand Identity.** Since the launch of full commercial operations in 1999, we have made a substantial investment in promoting our brand identity in Israel to represent quality, innovation and customer service. Our marketing activities have resulted in wide-scale recognition of our brand in Israel.
- **Strong Financial Performance and Financial Position.** Our net cash provided by operating activities less net cash used in investing activities has been NIS 1,021 million and NIS 1,472 million for the years ended December 31, 2009 and 2010, 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 and lead the Company. We believe that our performance-based incentive package aligns the interests of senior management with those of our shareholders.

14.3 Recent Developments

Acquisition of 012 Smile Telecom Ltd.

On March 3, 2011, following the receipt of the approval from the Ministry of Communications and the Israeli Antitrust Commissioner, we completed our acquisition of all of the outstanding shares of 012 Smile from Merhav-Ampal Energy Ltd. 012 Smile is a leading Israeli telecommunications operator, which provides international telecommunication services and local telecommunication fixed services, including telephony services using VoB access and internet services, with revenues of approximately NIS 1,113 million for 2010 during the 11 months starting February 1, 2010, the date on which 012 Smile's business activities began to operate under a new company. 012 Smile has extensive experience in the Israeli communications market, a strong brand name in the ISP and international long distance market, and a solid base of approximately 1.1 million customers subscribing to broadband, international long distance, and fixed-line telephony services. The purchase of 012 Smile is an important step in our strategic transformation into a comprehensive communications group. 012 Smile provides a complimentary asset to our current abilities by enhancing its ISP and its fixed line presence and by enabling us to secure a foothold in the international long distance calls market. We believe that the acquisition will strengthen our position towards other telecom groups and improve both our and 012 Smile's efficiency by capturing ISP and transmission synergy.

The Ministry of Communications' approval of the acquisition requires structural separation among the Company and 012 Smile for a limited period of time. See below "14.5 Risk Factors - We face risks associated with the acquisition of 012 Smile Telecom Ltd."

The information regarding 012 Smile's business operations presented above has been provided to us by 012 Smile, without our independent verification. See below "14.5 Risk Factors - Risks Relating to Our Business Operations - We face risks associated with the acquisition of 012 Smile Telecom Ltd."

The Company entered into an amendment to its brand license agreement

On April 28, 2011, we entered into an amendment (the "Amendment") to our license agreement, which was entered into on September 14, 1998 (the "Original Agreement") with Orange Brand Services Limited, a member of the France Telecom Group ("Orange"), for the use of the Orange brand.

The Original Agreement provided for a royalty review period from July 1, 2012 to September 30, 2012 ("Royalty Review Period") in respect of the royalties to be paid by Partner to Orange for the term of five years commencing on July 1, 2013 in connection with the use of the Orange brand by Partner. Partner has agreed in the Amendment to pay to Orange royalty fees earlier than July 1, 2013, in consideration for certain amendments to the Original Agreement and the provision by Orange of assistance in areas such as marketing and devices.

Royalties payable will be based on a percentage of Partner's revenues from the provision of services offered under the Orange brand. The Amendment provides for agreed royalties for a period of 15 years, commencing on July 4, 2011, subject to the establishment of a mutually acceptable procurement arrangement. If such condition is not satisfied, the Amendment will terminate, the Original Agreement will remain in effect and Partner and Orange will negotiate the terms of the royalties during the Royalty Review Period provided for in the Original Agreement. The Amendment also provides that Partner may terminate the Amendment by not less than three months notice at any time before the second anniversary of the Amendment.

Notwithstanding any termination of the Amendment, Partner and Orange have agreed to amend the Original Agreement to provide that:

- either party may terminate the Original Agreement upon a material breach by the other party; and
- upon any termination of the Original Agreement, Orange will not grant a license to use the Orange brand or otherwise permit use of the Orange brand in Israel for a period of 24 months, in respect of business-to-business telecommunications services, and for 30 months, in respect of other licensed telecommunications services.

The selection of two bidders in the UMTS frequencies allocation tender for two additional cellular operators

On April 12, 2011, Mirs Communications Ltd. (an existing cellular operator) and 018 Xfone Communications Ltd. won the Ministry of Communications' UMTS frequencies allocation tender for two additional cellular operators. Each of the beneficiaries is committed to a payment of license fees in the amount of more than NIS 700 million (US\$ 205 million). The beneficiaries will be awarded various benefits and leniencies, such as: (a) a minimal license fee of NIS 10 million (US\$ 2.9 million). The remaining amount of the license fee will be paid at the end of the five year period following award of the license. Each of the beneficiaries will be eligible for reductions in the license fee to a minimum of NIS 10 million, according to the market share achieved in the private (residential) segment of the market in the five years following award of the license. For each percent of the private market captured by the beneficiary, the beneficiary will be awarded a reduction of one-seventh of the remaining license fee (less NIS 10 million). The beneficiaries will be required to deposit a guarantee with the Ministry of Communications for the full license fee less the minimal fee of NIS 10 million. The guarantee will be reduced at the end of the second and fifth year according to the market share achieved at that time. (b) The tender winners will be allowed gradual geographic deployment of the infrastructure over a period of seven years and use of national-roaming services on the networks of existing cellular operators ("Roaming Services").

In accordance with an amendment to the Telecommunications Law, existing cellular operators will be required to allow the tender winners to use Roaming Services for a period of seven years, commencing on the date of the Ministry of Communications' approval that cellular services can be provided by the beneficiary, not through Roaming Services, to an area with at least 10% of the population, and as long as at the end of four years from the beginning of this period, the beneficiary will be able to provide cellular services, not through Roaming Services, to an area with at least 40% of the population. The Minister of Finance and the Minister of Communications can extend each of the above periods for one additional period that will not exceed three years. Until the determination of a final tariff by the Minister of Communications with the consent of the Minister of Finance, due no later than February 1, 2012, the existing cellular operator will only be allowed to charge the beneficiary prices for Roaming Services that do not exceed the Interconnect Tariff that will be in effect at that time (with regard to cellular data, the price per 1MB shall not exceed 65% of the Interconnect Tariff set for minute of a voice call).

There is a possibility that the beneficiaries will be awarded in the future additional benefits and leniencies such as the regulation of telecommunications infrastructure sharing as well as a rebates mechanism for spectrum fees, based on the market share gained by the beneficiaries in the private sector over a five year period after being awarded the license.

The entrance of new competitors is a significant development in the already vibrant competitive cellular environment in which we operate. This development may cause a further strengthening of the already significant upward trend in subscriber acquisition and retention costs for cellular subscribers and a further strengthening of the downward trend in cellular tariffs, and may also cause an increase in the cellular churn rate above that which has already been experienced, and may further affect our business and operating results.

Changes to the Management of 012 Smile Telecom Ltd.

On March 13, 2011, we announced the appointment of Mr. Offer Peri as Chief Executive Officer of 012 Smile effective as of April 1, 2011 replacing Ms. Stella Handler. As a result of the Company's acquisition of 012 Smile and the appointment of the new CEO of 012 Smile, further changes in the management of 012 Smile are expected. See below "14.5 Risk Factors - We face risks associated with the acquisition of 012 Smile Telecom Ltd. - Integration risk."

The Company signed a non-binding MOU with Alon Cellular Ltd.

In March 2011, we signed a non-binding Memorandum of Understanding with Alon Cellular Ltd. ("Alon Cellular") that includes commercial understandings regarding Alon Cellular's use of Partner's network as an MVNO (Mobile Virtual Network Operator). The Memorandum of Understanding will automatically terminate if the parties do not sign an agreement within the designated 60 day negotiation period or an extended 30 day period.

Legal proceedings

Following our submission of our 2010 20-F on March 21, 2011 to the SEC, an additional four claims, together with a request to recognize these claims as class actions, have been filed against the Company. The amount of each of these claims individually against the Company, if recognized as a class action, is not material. The aggregate amount of these four claims against the Company, if the claims are recognized as class actions, is estimated at approximately NIS 106 million. Furthermore, one claim filed against the Company, together with a request to recognize this claim as a class action, in the estimated amount of NIS 24 million (if recognized as a class action) has been dismissed.

In addition, on April 14, 2011, the Tel-Aviv District Court approved the settlement agreement with respect to the claim and the motion to certify the claim as a class action described in clause c(3) under note 18 to our consolidated financial statements ("the Clause"). The claim, originally made in a filing made by the plaintiffs on November 11, 2006, alleged that we unlawfully charged subscribers for incoming short messages (SMS) for a dating service ("Pupik service"), while they did not agree to get nor to pay NIS 5 for each short message. The court decided that the total amount to be returned to the subscribers will be according to the final report of an outside expert, as described in the Clause.

In addition, during 2008, several claims and motions to certify the claims as class actions were filed with various District Courts in Israel against several international telephony companies, including 012, in the amount of approximately NIS 641,520,000 (where the claim against 012 Smile amounted to approximately NIS 226.4 million). The plaintiffs alleged that with respect to prepaid calling card services the defendants misled the consumers in certain issues, charged consumers in excess, and formed a cartel that arranged and raised the prices of calling cards. Following various hearings, on April 14, 2011, the Supreme Court recommended that the parties resolve the dispute by way of mediation. The parties were instructed to inform the Court of the outcome of the mediation procedure within 120 days.

In addition, following our submission of our 2010 20-F, two claims filed against 012 Smile, together with a request to recognize these claims as class actions, in the estimated amount of NIS 43 million, have been dismissed.

See "Item 3D. Risk Factors" and "Item 8A. Financial Information - Consolidated Financial Statements and Other Financial Information – Legal and Administrative Proceedings" of the 2010 20-F, and Notes 18 and 26 of our consolidated financial statements attached to our 2010 20-F, for other information on our legal proceedings.

14.4 Summary Terms of the Offer

Issuer	Partner Communications Company Ltd.
Securities Offered	NIS 140,000,000 principal amount of Series D Notes and NIS 560,000,000 principal amount of Series E Notes, together referred to as the Notes.
Denomination	The Notes will be issued in NIS units, each in the principal amount of NIS 1,000.
Series D Offering Price	NIS 988 per unit.
Series E Offering Price	NIS 996 per unit.
Series D Principal Payment Dates	Principal payable in 5 equal annual installments on December 30 of each of the years 2017 through 2021.
Series E Principal Payment Dates	Principal payable in 5 equal annual installments on December 30 of each of the years 2013 through 2017.
Series D Maturity	December 30, 2021.
Series E Maturity	December 30, 2017.
Interest Rate Series D	A variable interest rate based on the annual interest rate of short term debt issued by the State of Israel ('Makam') in addition to a fixed annual spread of 1.20% per year (calculated quarterly).
Interest Rate Series E	A fixed interest rate of 5.5% per year.
Series D Interest Payment Dates	Interest on the outstanding principal of the Series D Notes is payable on March 30, June 30, September 30 and December 30 of each of the years 2010 through 2021.
Series E Interest Payment Dates	Interest on the outstanding principal of the Series E Notes is payable on June 30 and December 30 of each of the years 2010 through 2017.
Series D Linkage	None.
Series E Linkage	None.

Ranking	Unsecured debt.
Rating	ilAA-/negative
Early Redemption	None.
Trading	We have applied to list the Notes for trading on the TASE.
Use of Proceeds	The proceeds of such an offering will be used for the Company's current needs including settling payments on, or purchasing, the Company's Series A Notes and/or refinancing other debt.
Governing Law	Israeli law and courts
Trustee for the Series D Notes	Hermetic Trust (1975) Ltd.
Trustee for the Series E Notes	Ziv Haft Trusts Company Ltd.

14.5 Risk Factors

You should carefully consider all of the information contained in and incorporated by reference into this shelf offering report and the Shelf Prospectus and, in particular, the following risk factors when deciding whether to invest in the securities being offered. 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 exposed to government regulatory intervention regarding a broad range of issues in the telecommunications industry, such as interconnect tariffs, roaming charges 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; anti-trust regulation; and obligations under our operating license. In addition, in recent years, the Ministry of Communications has taken active steps to increase competition in the cellular market, and in the past year it has escalated its intervention in this regard. In January 2010, the Ministry of Communications adopted regulations providing for Mobile Virtual Network Operator (MVNO) licenses, and it has recently granted MVNO licenses to a number of companies and is expected to grant additional MVNO licenses. In September 2010, the Ministry of Communications published a tender for the allocation of UMTS frequency to additional infrastructure-based cellular operators in Israel. Four companies have submitted tender offers. On April 11, 2011, the tender was concluded and the UMTS frequencies were awarded to MIRS Communications Ltd. (“MIRS”) and 018 Xfone Communications Ltd. See above “14.3 Recent Developments - The selection of two bidders in the UMTS frequencies allocation tender for two additional cellular operators.”

The Ministry of Communications is also increasing competition by reducing entry barriers to enable new operators to enter the cellular market by allowing site sharing and national roaming and by allowing the use of existing cellular networks, including our’s, by other telecommunications services providers using competing or complementary technologies, such as Voice Over Broadband over Cellular (“VoC”) and providing Worldwide Interoperability for Microwave Access (“WiMAX”) licenses and/or other licenses. In addition, the Ministry of Communications intends to increase competition by, among other measures, allowing the use of our cellular network by other telecommunications services providers using competing or complementary technologies, such as Voice Over Broadband over Cellular (“VoC”) and providing Worldwide Interoperability for Microwave Access (“WiMAX”) licenses and/or other licenses. In addition, in the past year, the Ministry of Communications also increased competition by adopting regulations that facilitate the migration of subscribers between cellular companies by, among other measures, limiting the amount which telecommunication operators may charge subscribers who terminate their agreement before the end of their commitment period, and by prohibiting linkage between the sale of handsets and the provision of various benefits regarding cellular services. See below “14.5 Risk Factors - 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 our churn rate, all of which could adversely affect our business and results of operations.”

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. In this regard, it should be noted that in January 2011, the regulations regarding the royalty rate paid by Israeli cellular telephone operators were amended so that the royalty rate shall be increased from 1% of “chargeable revenues” in 2010 to 1.75% in 2011 and 2.5% in 2012. 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.

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.

Recent and potential future regulation and negotiation of roaming tariffs, both within Israel and elsewhere, may increase our roaming expenses, may decrease our roaming revenues 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, in November 2008 and February 2009, has requested us and our competitors to provide information regarding our roaming services. 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. Because roaming charges represent a significant source of revenue and profits, if roaming tariffs are reduced as a result of the review by the Ministry of Communications or 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 has intensified since Pelephone began providing a significant volume of roaming services through its new UMTS system. We are also subject to competition from alternative roaming solutions, including from other service providers. These service providers use alternative technologies that bypass the existing method of providing roaming services.

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.

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 materially adversely affected by future regulatory developments in these areas.

Call interconnect tariffs. September 6, 2010, the Ministry of Communications published its formal decision regarding a material reduction of interconnect tariffs. The monthly direct adverse affect of the reduction for 2011, without taking into consideration any mitigating steps, is estimated at approximately NIS 30-40 million on the Company’s EBITDA and approximately NIS 20-30 million on the Company’s net income. In addition to the direct adverse effect, we may suffer from additional significant indirect adverse effects, as a result, inter-alia, of the following possible developments: migration of outgoing calls from the cellular networks to the fixed line networks and the introduction into the cellular market of a mobile virtual network operator (MVNO) and two additional UMTS operators, while implementing national roaming, based on the new interconnect tariffs.

On November 14, 2010, the Company filed a petition with the Supreme Court of Justice claiming that the Ministry's decision to reduce interconnect tariffs is mistaken and unlawful. The Company has petitioned the Court to rescind the Ministry's decision and regulations or alternatively to amend them in such a manner so that the interconnect tariff chargeable by the Company shall not be less than the actual cost. The Company cannot predict the ultimate outcome of the petition. A hearing has been set for June 2011.

SMS interconnect tariffs. 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 the 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, if such interpretation prevails, to substantial sanctions and legal claims.

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 permits required for the erection and operation of our network sites. As of December 31, 2010, less than 10% of our network sites were operating without local building permits or exemptions, which in our opinion, are applicable.

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. 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.

Possible amendment to the Non-ionizing Radiation Law. In October 2010, a bill was submitted to amend the Non-Ionizing Radiation Law. In accordance with the bill, permits from the Ministry of Environmental Protection will not be given to cell sites that are within 75 meters of senior citizens institutions including senior citizen housing, education institutions, shelters and hospitals. In accordance with the bill, any permit that will be given to a cell site that does not fulfill the said provision shall expire within 6 months from the date of the amendment. The bill passed a preliminary reading in the Parliament and received the approval of the Ministerial legislative committee. If the bill is approved, it will cause significant damage to the telecommunications coverage in urban areas since we will be required to remove hundreds of telecommunication sites which, as a result, will adversely affect the Company's revenues.

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. Several local planning and building authorities have 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. Uncertainties regarding the validity of exemptions for wireless access devices. 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 Israeli cellular telephone operators. In May 2008 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 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 two petitions were filed with the High Court of Justice in opposition to the Attorney General's opinion. The matter is still pending before the Supreme Court and the High Court of Justice.

If a definitive court judgment holds that the exemption does not apply to cellular devices at all, 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 and coverage would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

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. However, we have received an approval to connect the repeaters to our communications network from the Ministry of Communications and have received from the Ministry of Environmental Protection permit types for all our repeaters. If the local planning and building authorities determine that permits under the Planning and Building Law are also 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 Environmental Protection 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.

The Ministry of Environmental Protection's Request for the Installment of Monitoring Devices. In May 2010, the Ministry of Environmental Protection notified the Company of an addition of a condition for all of the Company's network site operation permits, according to which the Company must install in its systems software that continuously monitors and reports the level of power created in real time from the operation of its network sites. The Ministry of Environmental Protection refused to provide the Company with any technical data regarding the monitoring software and therefore the Company cannot anticipate the manner of operation of the software nor its reliability. During the last few months, the Ministry of Environmental Protection received several alerts reporting exceeded transmitted power at some of the Company's cell sites. All purported claims were examined by the Company's engineers and were found to be baseless.

The Company complied with the said condition and as of August 19, 2010, provides continuous reports every fifteen minutes regarding the power of all of the transmitters. The Company is of the opinion that all of the antennas that it operates comply with the conditions of the safety permits that the Company was granted by the Ministry of Environmental Protection. However, implementation of the monitoring software increases the exposure of the Company and its senior officers to civil and criminal proceedings in the event that any antenna will be found to not meet the conditions of the permits granted to the Company and the maximum permitted power. In addition, if our antennas will be found to not meet the conditions of the permits granted to the Company and the maximum permitted power, the Ministry of Environmental Protection may revoke existing permits, which would require us to dismantle existing network sites. As a result, our network capacity and coverage would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

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 the Plan 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 as a result of granting a permit to the network site. On June 1, 2010, the National Council for Planning and Building approved the National Building Plan No. 36/A/1 version that incorporates all of the amendments to the Plan (“the Amended Plan”). The Amended Plan sets forth the indemnification amounts as a percentage of the value of the depreciated property claims in accordance with the manner in which the licenses were granted. The Amended Plan is subject to governmental approval, in accordance with the Planning and Building Law. It is unknown when the government intends to approve the Amended Plan.

As of December 31, 2010, we have provided local authorities with 398 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 quality and capacity of our network coverage.

In 2007, the Israeli Ministry 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 the Plan and six months from the construction of a network site. The Ministry retains the general authority to extend such period further. This extension of the limitation period increases our potential exposure to depreciation claims.

We have been required to offer access to our network infrastructure to other operators, which has enabled new competitors, such as MVNOs and new cellular operators, to enter the market, and may reduce our ability to provide quality services to our subscribers and negatively affect our operating results.