



partner communications

## PARTNER COMMUNICATIONS REPORTS

### SECOND QUARTER 2005 RESULTS

#### BOARD RECOMMENDS A CASH DIVIDEND OF NIS 0.57 PER SHARE

*Rosh Ha'ayin, Israel, July 27, 2005* – Partner Communications Company Ltd. (NASDAQ and TASE: PTNR; LSE: PCCD), a leading Israeli mobile communications operator, today announced its results for the second quarter 2005. Partner reported revenues in Q2 2005 of NIS 1,250.9 million (US\$ 273.5 million), EBITDA of NIS 420.8 million (US\$ 92.0 million), the equivalent of 33.6% of total revenue, and net income of NIS 115.8 million (US\$ 25.3 million). On July 27<sup>th</sup>, 2005 the board resolved to recommend to the shareholders to authorize the distribution of a cash dividend in the amount of NIS 0.57 per share (totaling approximately NIS 86.4 million) to shareholders on record as of September 26<sup>th</sup>, 2005. The dividend payment is subject to the approval of the Company's shareholders.

#### Q2 2005 vs. Q2 2004 Comparison

|  | Q2 2004 | Q2 2005 | Change  |
|--|---------|---------|---------|
| Revenues (NIS millions)  | 1,254.6 | 1,250.9 | (0.3%)  |
| EBITDA (NIS millions)  | 401.7   | 420.8   | 4.8%    |
| Operating Profit (NIS millions)  | 265.8   | 251.8   | (5.3%)  |
| Net Income (NIS millions)  | 133.4   | 115.8   | (13.2%) |
| Cash flow from operating activities net of investing activities (NIS millions) | 140.4   | 132.8   | (5.4%)  |
| Subscribers (thousands)  | 2,202   | 2,409   | 9.4%    |
| Estimated Market Share (%)   |         | 32      |         |
| Quarterly Churn Rate (%)   | 3.3     | 3.6     | 7.9%    |
| Average Monthly Usage per Subscriber (minutes)                                 | 283     | 296     | 4.6%    |
| Average Monthly Revenue per Subscriber   | 171     | 157     | (8.1%)  |

|  |     |     |         |
|--|-----|-----|---------|
| (NIS)                                      |     |     |         |
| Average Subscriber Acquisition Costs (NIS) | 293 | 263 | (10.2%) |

Commenting on the results, Amikam Cohen, Partner's CEO, said: "Our second quarter results are evidence of our continued financial and operational strength, and our ability to create value for our shareholders.

For the third year running, orange™ has been chosen as the leading telecommunications brand in Israel and as the second most valuable brand in Israel by Globes, an Israeli business daily newspaper. In addition, Partner has been awarded the prestigious Effie Platinum award for our continued outstanding achievements in marketing activities over the last five years. These factors, together with the excellent quality of our services, enable us to keep growing our customer base and continue delivering exciting new services to our customers. Our 3G network covers already 92% of the population, and is used by more than 35,000 3G subscribers."

## **Financial Review**

Partner's Q2 2005 revenues totaled NIS 1,250.9 million (US\$ 273.5 million), approximately equivalent to the revenues of NIS 1,254.6 million in Q2 2004 and down 0.8% from NIS 1,260.5 million in Q1 2005. Compared with Q2 2004, revenues were higher largely as a result of a larger subscriber base and increased minutes of use, but this was offset primarily by the impact of the reduction in interconnection tariffs in March 2005. Compared with Q1 2005, higher revenues resulted from the combined effect of increased minutes of use, resulting from a larger subscriber base, seasonal factors and restructured tariffs and rate plans, which were offset by the full quarterly effect of the reduction in interconnection tariffs and lower revenues from handset sales.

Content and data revenues for Q2 2005 accounted for 7.3% of total revenues, up from 7.0% in Q2 2004 but down from 7.5% in Q1 2005, primarily due to the full quarterly effect of the reduction in SMS interconnection tariffs. Compared with Q2 2004, data and content non-SMS revenues increased by 22.8% in Q2 2005.

The cost of revenues related to services rose by 2.8% to NIS 729.5 million (US\$ 159.5 million) in Q2 2005, compared with NIS 709.6 million in Q2 2004 and fell by 1.9% compared with NIS 743.3 million in Q1 2005. In relation to Q2 2004 the increase was due almost entirely

to higher depreciation and amortization charges following the launch of the 3G network towards the end of 2004. Compared with Q1 2005 the decrease was due almost entirely to lower variable airtime costs as a result of the reduction in interconnection tariffs. The cost of revenues related to equipment increased by 2.4% to NIS 157.9 million (US\$ 34.5 million) in Q2 2005, from NIS 154.2 million in Q2 2004 but decreased by 13.0% compared with NIS 181.5 million in Q1 2005. Compared with Q2 2004 the increase was driven primarily by the higher number and pricing of handset sales to new and upgrading subscribers, whereas the decrease from Q1 2005 was primarily due to a reduction in the number and pricing of handset sales to new and upgrading subscribers over the quarter.

Overall, gross profit was NIS 363.4 million (US\$ 79.4 million) in Q2 2005, representing a 7.0% decrease from NIS 390.9 million in the second quarter of 2004, and an 8.3% increase from NIS 335.6 million in Q1 2005. The year-on-year decrease was primarily due to increased depreciation, amortization and network expenses from the launch of the 3G network and the changes in interconnect tariffs. The increase in gross profit compared with Q1 2005 resulted from the combined effect of lower variable revenues and costs from the reduction in interconnection tariffs offset by higher revenues from increased minutes of use resulting from a larger subscriber base, seasonal factors and restructured tariff and rate plans.

Selling and marketing expenses were NIS 65.4 million (US\$ 14.3 million) in Q2 2005, representing a decrease of 14.5% from NIS 76.5 million in Q2 2004, but an increase of 14.1% from NIS 57.4 million in Q1 2005. Compared with Q2 2004, the decrease was principally driven by reductions in distribution and advertising costs. Expenses were higher compared with Q1 2005 primarily due to seasonal marketing campaigns.

In Q2 2005, the Company's general and administrative expenses decreased by 4.8% to NIS 46.2 million (US\$ 10.1 million) compared with NIS 48.6 million in Q2 2004, but increased by 11.3% from NIS 41.5 million compared with Q1 2005, resulting primarily from the timing of those expenses. The decrease compared with Q2 2004 resulted primarily from one-off costs expensed in Q2 2004 related to the Company's attempt to purchase a controlling interest in Matav, as well as deferred charges of approximately NIS 4.8 million comprising primarily of

legal and accounting fees incurred in 2001, in preparing and maintaining the Company's shelf registration with the US Securities and Exchange Commission, that were expensed.

Operating profit for the Q2 2005 was NIS 251.8 million (US\$ 55.0 million), a decrease of 5.3% compared with NIS 265.8 million in Q2 2004, and increased by 6.3% compared with NIS 236.8 million in Q1 2005. Quarterly EBITDA increased in Q2 2005 by 4.8% to NIS 420.8 million (US\$ 92.0 million) from NIS 401.7 million in Q2 2004, and by 5.0% compared with NIS 400.6 million in Q1 2005. In revenue terms, EBITDA increased to 33.6% of revenues in Q2 2005 from 32.0% in Q2 2004 and from 31.8% in Q1 2005.

Financial expenses were NIS 82.8 million (US\$ 18.1 million) in Q2 2005, up 25.5% from Q2 2004, and up 62.9% compared with Q1 2005. The increases were primarily driven by interest charges on the Company's new CPI linked shekel-denominated notes and a one-off amortization of capitalized expenses related to the Company's previous bank facility.

Net income in the Q2 of 2005 was NIS 115.8 million (US\$ 25.3 million), representing a decrease of 13.2% from NIS 133.4 million in Q2 2004, and 7.0% from NIS 124.5 million in Q1 2005.

Basic earnings per share, based on average number of shares outstanding during the quarter, in the second quarter of 2005 were 0.73 NIS (16 US cents) unchanged from Q2 2004. Compared with Q1 2005, basic earnings per share increased 7.4% from 0.68 NIS, despite net income being 7% lower in Q2 2005 compared with Q1 2005. The growth in basic earnings per share resulted from the reduced number of shares outstanding following the repurchase of approximately 33.3 million shares from the founding Israeli Shareholders on April 20, 2005. Fully diluted earnings per share in Q2 of 2005 were 0.72 NIS (16 US cents) unchanged from 0.72 NIS in Q2 2004 and up from 0.67 NIS in Q1 2005.

### **Funding and Investing Review**

Cash flows generated from operating activities, net of cash flows from investing activities, in Q2 2005, totaled NIS 132.8 million (US\$ 29.0 million). Compared with Q2 2004, cash flows

from operating activities, net of cash flows from investing activities, declined by 5.4% from NIS 140.4 million, incorporating both a decrease in cash flows from operating activities and in the level of investment in fixed assets.

Net investment in fixed assets totaled NIS 139.4 million (US\$ 30.5 million) in Q2 2005, up from NIS 156.2 million in Q2 2004 but down from NIS 186.3 million in Q1 2005. The increase compared with Q2 2004 resulted mainly from the Company's accelerated 3G network build-out.

On March 31, 2005, Partner completed an offering of NIS 2,000 million of unsecured Series A notes, which were issued at their NIS par value. The notes were registered in Israel. Of these notes, approximately NIS 36.5 million was purchased by Partner Future Communications 2000 Ltd. ("PFC"), a wholly owned subsidiary of the Company. The net proceeds from the offering (received on April 3, 2005) were approximately NIS 1,900 million (approximately US\$ 422 million) after deducting the notes purchased by PFC, commissions and offering expenses.

The principal amount of the Notes is payable in 12 quarterly installments, beginning June 30, 2009 until March 31, 2012. The Notes, linked to the Israeli Consumer Price Index, bear NIS interest at the rate of 4.25% per year, which is payable quarterly on the last day of each quarter, commencing June 30, 2005.

On April 14, 2005 the Company entered into a new \$550 million bank credit facility. The facility is divided into two tranches: a six year \$450 million term loan facility and a six year \$100 million revolving loan facility, and is secured by a first ranking floating charge on the Company's assets. The new credit facility replaced the Company's previous facility.

On April 20, 2005, following the Company's offering of NIS 2,000 million of unsecured Series A notes, the Company exercised an option to reduce the term facility to \$150 million (in addition to an advance of approximately \$25 million carried over from the Company's previous facility), and to change the final maturity date of both facilities to September 1, 2009.

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

On July 12 2005, the Company's shareholders approved to redeem on August 15<sup>th</sup>, 2005, the outstanding 13% Senior Subordinated Notes, due 2010. According to the terms of the Notes, the redemption price will be 106.5% of the principal amount. The redemption, which will be financed from the bank facility and funds generated from current operations, concludes the refinancing of the Company's long term debt into lower cost shekel denominated debt.

### **Operational Review**

Approximately 37,000 net active subscribers joined the Company in Q2 2005 compared with approximately 38,000 in Q2 2004 and approximately 32,000 in Q1 2005. The quarterly churn rate was 3.6% for Q2 2005 compared with 3.3% in Q2 2004, with the increase occurring almost entirely in the prepaid sector. The Company's active subscriber base at the end of June 2005 was approximately 2,409,000, including approximately 463,000 business subscribers or 19% of the base, approximately 1,227,000 postpaid private subscribers, or 51% of the base, and approximately 719,000 prepaid subscribers, or 30% of the base. Of the Company's subscriber base, approximately 35,000 are 3G subscribers. Overall, we estimate our market share to be around 32%.

In the second quarter of 2005 ARPU was approximately NIS 157 (US\$ 34.3), compared with approximately NIS 171 in Q2 2004 and NIS 157 in the previous quarter. The decrease compared with Q2 2004 was primarily driven by the reduction in interconnection charges.

Average minutes of use (MOU) for Q2 2005 was approximately 296 minutes per month, compared with 283 minutes per month in Q2 2004 and 288 minutes per month for Q1 2005.

The average cost of acquiring new subscribers (SAC) in Q2 2005 was approximately NIS 263 (US\$ 57.5), down from NIS 293 in Q2 2004 but up from NIS 229 in Q1 2005. The reduction compared with Q2 2004 mainly reflects a reduction in handset costs.

### **Outlook and Guidance**

Commenting on the Company's outlook, Mr. Alan Gelman, Partner's Chief Financial Officer said: "We are very pleased with our second quarter financial and operational results. The results of the first half of the year are in line with the 2005 annual guidance we gave in our press release on February 7, 2005. We have successfully mitigated the effects of the reduction in interconnect tariffs and maintained EBITDA at the level of the previous year by restructuring our tariffs and customer offerings and by reducing costs. We believe that our performance is sustainable in the second half of 2005."

Commenting on the dividend recommendation, Mr. Gelman said: "Our strategy has always been to maximize value for our investors, customers and employees. The recent completion of share repurchase has contributed to growth in earnings per share, and the cash dividend recommendation, announced today reflects our strong balance sheet, financial position and results of operations."

### **Other**

Partner Communications Company announced today the appointment of Mr. Amikam Shorer to its Board of Directors. Mr. Amikam Shorer has served as VP of Business Affairs and the General Counsel of Eurocom Group, an Israeli leader in telecom and internet products and services, since 2000. Mr. Shorer also serves as a director in several companies within the Eurocom Group. Mr. Shorer holds an LLB degree from Bar-Ilan University. Mr. Canning Fok, the Chairman of the Board of Partner, wished Mr. Shorer success in his new role.





## **Conference Call Details**

Partner Communications will hold a conference call to discuss the company's first-quarter results on Wednesday, July 27, 2005, at 18:00 Israel local time (11AM EST). This conference call will be broadcast live over the Internet and can be accessed by all interested parties through our investor relations web site at <http://www.investors.partner.co.il>.

To listen to the broadcast, please go to the web site at least 15 minutes prior to the start of the call to register, download and install any necessary audio software. For those unable to listen to the live broadcast, an archive of the call will be available via the Internet (at the same location as the live broadcast) shortly after the call ends, and until midnight of August 3, 2005.

## **About Partner Communications**

Partner Communications Company Ltd. is a leading Israeli mobile communications operator providing GSM/GPRS/UMTS services and wire free applications under the preferred orange™ brand. The Company commenced full commercial operations in January 1999 and, through its network, provides quality of service and a range of features to 2.409 million subscribers in Israel. Partner subscribers can use roaming services in 156 destinations using 337 GSM networks. The Company launched its 3G service in 2004. Partner's ADSs are quoted on NASDAQ under the symbol PTNR and on the London Stock Exchange (LSE) under the symbol PCCD. Its shares are quoted on the Tel Aviv Stock Exchange (TASE) under the symbol PTNR. For further information: <http://www.investors.partner.co.il>

*Notes: Some of the information in this release contains forward-looking statements that involve risks and uncertainties within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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 us.*

*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 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:*

- <sup>2</sup> the effects of the high degree of regulation in the telecommunications market in which we operate;*
- regulatory developments relating to tariffs, including interconnect tariffs;*
- regulatory developments related to the implementation of number portability;*
- the difficulties associated with obtaining all permits required for building and operating of antenna sites;*
- alleged health risks related to antenna sites and use of telecommunication devices;*
- the possible requirement to indemnify planning committees in respect of claims made against them relating to the depreciation of property values or to alleged health damages resulting from antenna sites;*
- the effects of vigorous competition in the market in which we operate and for more valuable customers, which may decrease prices charged, increase churn and change our customer mix, profitability and average revenue per user, and the response of competitors to industry and regulatory developments;*
- 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;*
- uncertainties about the degree of growth in the number of consumers in Israel using wireless personal communications services and the growth in the Israeli population;*

- *the risks associated with the implementation of a third generation (3G) network and business strategy, including risks relating to the operations of new systems and technologies, 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 risks associated with technological requirements, technology substitution and changes and other technological developments;*
- *fluctuations in foreign exchange rates;*
- *the availability and cost of capital and the consequences of increased leverage;*
- *the results of litigation filed or that may be filed against us; 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 risk factors specified under the heading “Risk Factors” in our 2004 annual report on form 20-F filed with the SEC on April 22, 2005.*

*The attached summary financial statements were prepared in accordance with U.S. GAAP. The attached summary financial statements for Q2 2005 are unaudited.*

*The convenience translations of the Nominal New Israeli Shekel (NIS) figures into US Dollars were made at the rate of exchange prevailing at June 30, 2005: US\$ 1.00 equals NIS 4.574. The translations were made purely for the convenience of the reader.*

*Earnings before interest, taxes, depreciation, amortization, exceptional items and capitalization of intangible assets ('EBITDA') is presented because it is a measure commonly used in the telecommunications industry and is presented solely in order to improve the understanding of the Company's operating results and to provide further perspective on these results. EBITDA, however, should not be considered as an alternative to operating income or income for the year as an indicator of the operating performance of the Company. 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 the historic operating results of the Company; nor is it meant to be predictive of potential future results.*

*Reconciliation between our cash flows from operating activities and EBIDTA is presented in the attached summary financial statements.*

Contacts:

Mr. Alan Gelman

Chief Financial Officer

Tel: +972-54-7814951

Fax: +972-54-7815961

E-mail: [alan.gelman@orange.co.il](mailto:alan.gelman@orange.co.il)

Dr. Dan Eldar

V.P. Carrier, Investor and International Relations

Tel: +972-54-7814151

Fax: +972-54 -7814161

E-mail: [dan.eldar@orange.co.il](mailto:dan.eldar@orange.co.il)

**PARTNER COMMUNICATIONS COMPANY LTD.**

(An Israeli Corporation)

**CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | <b>New Israeli shekels</b>               |  | <b>Convenience translation into<br/>U.S. dollars</b> |  |
|--|--|--|--|--|
|  | <b>June 30,<br/>2005<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2004<br/>(Audited)</b> | <b>June 30,<br/>2005<br/>(Unaudited)</b>             | <b>December 31,<br/>2004<br/>(Audited)</b> |
|  | <b>I n t h o u s a n d s</b>             |  |  |  |
| <b>A s s e t s</b>   |  |  |  |  |
| <b>CURRENT ASSETS:</b>   |  |  |  |  |
| Cash and cash equivalents  | 252,188                                  | 4,611  | 55,135   | 1,008                                      |
| Accounts receivable:   |  |  |  |  |
| Trade  | 690,655                                  | 625,220  | 150,996  | 136,690                                    |
| Other  | 84,819                                   | 70,158   | 18,544   | 15,338                                     |
| Inventories  | 88,657                                   | 101,656  | 19,383   | 22,225                                     |
| Deferred income taxes  | 151,832                                  | 255,503  | 33,195   | 55,860                                     |
| <b>T o t a l c u r r e n t a s s e t s</b>                             | <b>1,268,151</b>                         | <b>1,057,148</b>                               | <b>277,253</b>                                       | <b>231,121</b>                             |
| <b>INVESTMENTS AND LONG-TERM RECEIVABLES:</b>                          |  |  |  |  |
| Accounts receivables - trade   | 146,428                                  | 96,687   | 32,013   | 21,138                                     |
| Funds in respect of employee rights upon retirement                    | 71,523                                   | 69,128   | 15,637   | 15,113                                     |
|  | <b>217,951</b>                           | <b>165,815</b>                                 | <b>47,650</b>  | <b>36,251</b>                              |
| <b>FIXED ASSETS</b> , net of accumulated depreciation and amortization | <b>1,883,740</b>                         | <b>1,843,182</b>                               | <b>411,836</b>                                       | <b>402,969</b>                             |
| <b>LICENSE AND DEFERRED CHARGES</b> , net of amortization              | <b>1,377,614</b>                         | <b>1,325,592</b>                               | <b>301,184</b>                                       | <b>289,810</b>                             |
| <b>DEFERRED INCOME TAXES</b>   | <b>86,323</b>                            | <b>94,442</b>                                  | <b>18,872</b>  | <b>20,648</b>                              |
|  | <b>4,833,779</b>                         | <b>4,486,179</b>                               | <b>1,056,795</b>                                     | <b>980,799</b>                             |

| New Israeli shekels   |          | Convenience translation into |          |
|-----------------------|----------|------------------------------|----------|
|                       |          | U.S. dollars                 |          |
| June 30,              | December | June 30,                     | December |
| 2005                  | 31,      | 2005                         | 31,      |
| (Unaudited)           | 2004     | (Unaudited)                  | 2004     |
| (Audited)             |          | (Audited)                    |          |
| I n t h o u s a n d s |          |                              |          |

### Liabilities and shareholders' equity

#### CURRENT LIABILITIES:

|   |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| Current maturities of long-term liabilities | 33,947         |                | 7,422          |                |
| Accounts payable and accruals:              |                |                |                |                |
| Trade                                       | 574,884        | 552,377        | 125,686        | 120,765        |
| Other                                       | 246,490        | 307,364        | 53,889         | 67,198         |
| T o t a l current liabilities               | <u>855,321</u> | <u>859,741</u> | <u>186,997</u> | <u>187,963</u> |

#### LONG-TERM LIABILITIES:

|   |                  |                  |                |                |
|---|------------------|------------------|----------------|----------------|
| Bank loans, net of current maturities         | 315,484          | 1,185,088        | 68,973         | 259,092        |
| Notes payable                                 | 2,779,596        | 753,900          | 607,695        | 164,823        |
| Liability for employee rights upon retirement | 96,642           | 92,808           | 21,129         | 20,290         |
| Other liabilities                             | 20,841           | 7,567            | 4,556          | 1,654          |
| T o t a l long-term liabilities               | <u>3,212,563</u> | <u>2,039,363</u> | <u>702,353</u> | <u>445,859</u> |
| T o t a l liabilities                         | <u>4,067,884</u> | <u>2,899,104</u> | <u>889,350</u> | <u>633,822</u> |

#### SHAREHOLDERS' EQUITY:

|  |                  |                  |                  |                |
|--|------------------|------------------|------------------|----------------|
| Share capital - ordinary shares of NIS 0.01 par value: authorized - December 31, 2004 and June 30, 2005 - 235,000,000 shares; issued and outstanding - December 31, 2004 - 184,037,221 shares and June 30, 2005 - 151,469,445 shares | 1,515            | 1,840            | 331              | 402            |
| L e s s - receivable in respect of shares  |                  | (2,260)          |                  | (494)          |
| Capital surplus  | 2,384,831        | 2,362,027        | 521,389          | 516,403        |
| Deferred compensation  | (18,388)         | (23,650)         | (4,021)          | (5,171)        |
| Accumulated deficit  | (1,602,063)      | (750,882)        | (350,254)        | (164,163)      |
| T o t a l shareholders' equity   | <u>765,895</u>   | <u>1,587,075</u> | <u>167,445</u>   | <u>346,977</u> |
|  | <u>4,833,779</u> | <u>4,486,179</u> | <u>1,056,795</u> | <u>980,799</u> |

**PARTNER COMMUNICATIONS COMPANY LTD.**  
(An Israeli Corporation)  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|   | New Israeli shekels                  |                    |                                    |                    | Convenience translation into<br>U.S. dollars |                                     |
|---|--------------------------------------|--------------------|------------------------------------|--------------------|--|-------------------------------------|
|   | 6 month<br>period ended<br>June 30   |                    | 3 month<br>period ended<br>June 30 |                    | 6 month<br>period ended<br>June 30,          | 3 month<br>period ended<br>June 30, |
|   | 2005                                 | 2004               | 2005                               | 2004               | 2005   | 2005                                |
|   | ( U n a u d i t e d )                |                    |                                    |                    |  |                                     |
|   | In thousands (except per share data) |                    |                                    |                    |  |                                     |
| <b>REVENUES - net:</b>  |                                      |                    |                                    |                    |  |                                     |
| Services  | 2,278,067                            | 2,233,864          | 1,145,642                          | 1,138,254          | 498,047                                      | 250,468                             |
| Equipment   | 233,276                              | 239,362            | 105,233                            | 116,326            | 51,000                                       | 23,007                              |
|   | <u>2,511,343</u>                     | <u>2,473,226</u>   | <u>1,250,875</u>                   | <u>1,254,580</u>   | <u>549,047</u>                               | <u>273,475</u>                      |
| <b>COST OF REVENUES:</b>                                      |                                      |                    |                                    |                    |  |                                     |
| Services  | 1,472,857                            | 1,393,048          | 729,525                            | 709,562            | 322,006                                      | 159,494                             |
| Equipment   | 339,442                              | 326,341            | 157,949                            | 154,161            | 74,212                                       | 34,532                              |
|   | <u>1,812,299</u>                     | <u>1,719,389</u>   | <u>887,474</u>                     | <u>863,723</u>     | <u>396,218</u>                               | <u>194,026</u>                      |
| <b>GROSS PROFIT</b>   | 699,044                              | 753,837            | 363,401                            | 390,857            | 152,829                                      | 79,449                              |
| <b>SELLING AND MARKETING<br/>EXPENSES</b>                     | 122,805                              | 168,228            | 65,442                             | 76,504             | 26,848                                       | 14,307                              |
| <b>GENERAL AND<br/>ADMINISTRATIVE<br/>EXPENSES</b>            | 87,713                               | 84,494             | 46,203                             | 48,553             | 19,176                                       | 10,101                              |
| <b>OPERATING PROFIT</b>                                       | 488,526                              | 501,115            | 251,756                            | 265,800            | 106,805                                      | 55,041                              |
| <b>FINANCIAL EXPENSES - net</b>                               | 133,680                              | 153,039            | 82,826                             | 66,011             | 29,226                                       | 18,108                              |
| <b>INCOME BEFORE TAXES<br/>ON INCOME</b>                      | 354,846                              | 348,076            | 168,930                            | 199,789            | 77,579                                       | 36,933                              |
| <b>TAXES ON INCOME</b>  | 114,519                              | 122,842            | 53,096                             | 66,374             | 25,037                                       | 11,608                              |
| <b>NET INCOME FOR THE<br/>PERIOD</b>                          | <u>240,327</u>                       | <u>225,234</u>     | <u>115,834</u>                     | <u>133,415</u>     | <u>52,542</u>                                | <u>25,325</u>                       |
| <b>EARNINGS PER SHARE<br/>("EPS") :</b>                       |                                      |                    |                                    |                    |  |                                     |
| Basic   | <u>1.40</u>                          | <u>1.23</u>        | <u>0.73</u>                        | <u>0.73</u>        | <u>0.31</u>                                  | <u>0.16</u>                         |
| Diluted   | <u>1.38</u>                          | <u>1.22</u>        | <u>0.72</u>                        | <u>0.72</u>        | <u>0.30</u>                                  | <u>0.16</u>                         |
| <b>WEIGHTED AVERAGE<br/>NUMBER OF SHARES<br/>OUTSTANDING:</b> |                                      |                    |                                    |                    |  |                                     |
| Basic   | <u>171,425,420</u>                   | <u>183,143,256</u> | <u>158,703,072</u>                 | <u>183,308,290</u> | <u>171,425,420</u>                           | <u>158,703,072</u>                  |
| Diluted   | <u>173,634,795</u>                   | <u>184,852,967</u> | <u>160,780,744</u>                 | <u>184,912,233</u> | <u>173,634,795</u>                           | <u>160,780,744</u>                  |



**PARTNER COMMUNICATIONS COMPANY LTD.**  
(An Israeli Corporation)  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | New Israeli shekels             |                     | Convenience<br>translation into  |
|---|---------------------------------|---------------------|----------------------------------|
|   | U.S. dollars                    |                     |                                  |
|   | 6 month period<br>ended June 30 |                     | 6 month period<br>ended June 30, |
|   | 2005                            | 2004                | 2005                             |
|   | (Unaudited)                     |                     |                                  |
|   | In thousands                    |                     |                                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                 |                     |                                  |
| Net income for the period   | 240,327                         | 225,234             | 52,542                           |
| Adjustments to reconcile net income to net cash provided<br>by operating activities:  |                                 |                     |                                  |
| Depreciation and amortization   | 336,672                         | 272,678             | 73,606                           |
| Amortization of deferred compensation related to<br>employee stock option grants, net | 6,977                           | 631                 | 1,525                            |
| Liability for employee rights upon retirement   | 3,834                           | 10,091              | 839                              |
| Accrued interest and exchange and linkage differences<br>on long-term liabilities     | 64,813                          | 23,810              | 14,170                           |
| Deferred income taxes   | 111,791                         | 120,721             | 24,441                           |
| Income tax benefit in respect of exercise of option granted to<br>Employees           | 2,729                           | 2,121               | 597                              |
| Capital loss (gain) on sale of fixed assets   | 420                             | (391)               | 92                               |
| Changes in operating assets and liabilities:  |                                 |                     |                                  |
| Increase in accounts receivable:  |                                 |                     |                                  |
| Trade   | (115,176)                       | (101,369)           | (25,181)                         |
| Other   | (14,661)                        | (1,469)             | (3,206)                          |
| Increase (decrease) in accounts payable and accruals:                                 |                                 |                     |                                  |
| Trade   | (23,253)                        | 65,405              | (5,084)                          |
| Other   | (60,874)                        | (24,190)            | (13,309)                         |
| Decrease (Increase) in inventories  | 12,999                          | (51,900)            | 2,842                            |
| Increase in asset retirement obligations  | 228                             | 132                 | 50                               |
| Amount carried to deferred charges  | (13,224)                        |                     | (2,891)                          |
| Net cash provided by operating activities   | <u>553,602</u>                  | <u>541,504</u>      | <u>121,033</u>                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                 |                     |                                  |
| Purchase of fixed assets  | (295,095)                       | (260,229)           | (64,516)                         |
| Purchase of additional spectrum   | (41,539)                        | (48,850)            | (9,082)                          |
| Proceeds from sale of fixed assets  | 16                              | 552                 | 4                                |
| Funds in respect of employee rights upon retirement                                   | (2,395)                         | (8,538)             | (524)                            |
| Net cash used in investing activities   | <u>(339,013)</u>                | <u>(317,065)</u>    | <u>(74,118)</u>                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                 |                     |                                  |
| Financial lease undertaken  | 15,832                          |                     | 3,461                            |
| Repurchase of company's shares  | (1,091,841)                     |                     | (238,706)                        |
| Issuance of notes payable under a prospects, net of issuance costs                    | 1,929,540                       |                     | 421,850                          |
| Proceeds from exercise of stock options granted to employees                          | 20,628                          | 16,241              | 4,510                            |
| Repayment of long term bank loans   | (841,171)                       | (239,500)           | (183,903)                        |
| Net cash provided by (used in) financing activities                                   | <u>32,988</u>                   | <u>(223,259)</u>    | <u>7,212</u>                     |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <u>247,577</u>                  | <u>1,180</u>        | <u>54,127</u>                    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                               | <u>4,611</u>                    | <u>3,774</u>        | <u>1,008</u>                     |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                     | <u><u>252,188</u></u>           | <u><u>4,954</u></u> | <u><u>55,135</u></u>             |

**Supplementary information on investing activities not involving cash flows**

At June 30, 2005, and 2004, trade payables include NIS 141,400,000 (\$ 30,912,000) (unaudited) and NIS 120,070,000 (\$ 26,251,000) (unaudited) in respect of acquisition of fixed assets and additional spectrum, respectively. This balance will be given recognition in these statements upon payment.

**PARTNER COMMUNICATIONS COMPANY LTD.**  
(An Israeli Corporation)  
**RECONCILIATION BETWEEN OPERATING CASH FLOWS AND EBITDA**

|   | New Israeli shekels                      |                | Convenience<br>translation<br>into<br>U.S. dollars |
|---|--|----------------|--|
|   | 6 Month Period Ended<br>June 30,<br>2005 | 2004           | 6 Month Period<br>Ended<br>June 30,<br>2005        |
| (Unaudited)   |  |                |  |
| In thousands  |  |                |  |
| Net cash provided by operating activities   | 553,602                                  | 541,504        | 121,032  |
| Liability for employee rights upon retirement                                     | (3,834)                                  | (10,091)       | (838)  |
| Accrued interest and exchange and linkage differences on<br>long-term liabilities | (64,813)                                 | (23,810)       | (14,170)   |
| Amount carried to differed charges  | 13,224                                   |                | 2,891  |
| Increase in accounts receivable:  |  |                |  |
| Trade   | 115,176                                  | 101,369        | 25,181   |
| Other   | 14,661                                   | 1,469          | 3,205  |
| Decrease (increase) in accounts payable and accruals:                             |  |                |  |
| Trade   | 23,253                                   | (65,405)       | 5,084  |
| Other   | 60,874                                   | 24,190         | 13,309   |
| Increase (decrease) in inventories  | (12,999)                                 | 51,900         | (2,842)  |
| Increase in Assets Retirement Obligation  | (228)                                    | (132)          | (50)   |
| Financial Expenses  | 122,554                                  | 148,494        | 26,794   |
| EBITDA  | <u>821,470</u>                           | <u>769,488</u> | <u>179,596</u>                                     |

**PARTNER COMMUNICATIONS COMPANY LTD.**  
**(An Israeli Corporation)**

|  | New Israeli shekels   |                       |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 3 month period ended  |                       |                       |                       |                       |
|  | June 30,<br>2004      | September 30,<br>2004 | December 31,<br>2004  | March 31,<br>2005     | June 30,<br>2005      |
|  | ( U n a u d i t e d ) |                       |                       |                       |                       |
|  | I n t h o u s a n d s |                       |                       |                       |                       |
| <b>REVENUES - net</b>                              | 1,254,580             | 1,348,379             | 1,319,132             | 1,260,468             | 1,250,875             |
| <b>COST OF REVENUES</b>                            | <u>863,723</u>        | <u>944,617</u>        | <u>951,008</u>        | <u>924,825</u>        | <u>887,474</u>        |
| <b>GROSS PROFIT</b>                                | 390,857               | 403,762               | 368,124               | 335,643               | 363,401               |
| <b>SELLING AND<br/>MARKETING<br/>EXPENSES</b>      | 76,504                | 80,691                | 76,325                | 57,363                | 65,442                |
| <b>GENERAL AND<br/>ADMINISTRATIVE<br/>EXPENSES</b> | <u>48,553</u>         | <u>47,134</u>         | <u>49,505</u>         | <u>41,510</u>         | <u>46,203</u>         |
| <b>OPERATING PROFIT</b>                            | 265,800               | 275,937               | 242,294               | 236,770               | 251,756               |
| <b>FINANCIAL<br/>EXPENSES - net</b>                | <u>66,011</u>         | <u>44,042</u>         | <u>63,464</u>         | <u>50,854</u>         | <u>82,826</u>         |
| <b>INCOME BEFORE<br/>TAXES ON INCOME</b>           | 199,789               | 231,895               | 178,830               | 185,916               | 168,930               |
| <b>TAX BENEFIT (TAXES<br/>ON INCOME)</b>           | <u>(66,374)</u>       | <u>(116,992)</u>      | <u>(47,414)</u>       | <u>(61,423)</u>       | <u>53,096</u>         |
| <b>NET INCOME FOR THE<br/>PERIOD</b>               | <u><u>133,415</u></u> | <u><u>114,903</u></u> | <u><u>131,416</u></u> | <u><u>124,493</u></u> | <u><u>115,834</u></u> |

## PARTNER COMMUNICATIONS COMPANY LTD. (An Israeli Corporation)

## Summary Operating Data

|  | Q2 2005     | Q2 2004     |
|--|-------------|-------------|
| Subscribers (in thousands)   | 2,409       | 2,202       |
| Estimated share of total Israeli mobile telephone subscribers  | 32%         | 32%         |
| Churn rate in quarter  | 3.6%        | 3.3%        |
| Average monthly usage in quarter per subscriber (minutes)  | 296         | 283         |
| Average monthly revenue in year per subscriber, including in-roaming revenue (NIS)                                 | 157         | 171         |
| Number of 2G operational base stations (in parenthesis number of micro sites out of total number of base stations) | 2,260 (716) | 2,178 (733) |
| Subscriber acquisition costs in quarter per subscriber (NIS)   | 263         | 293         |
| Number of employees (full-time equivalent)   | 3,192       | 3,084       |