

Financial Information of a Listed Associated Company

The following financial information of the Group's significant listed associated company, Partner Communications Company Ltd. ("Partner"), is based on information publicly disclosed in Partner's annual results. Hong Kong dollar equivalents for these purposes are calculated using an exchange rate of HK\$1.810 = NIS1.00 for 2004 and HK\$1.706 = NIS1.00 for 2003.

	2003 NIS millions	2004 NIS millions	2003 HK\$ millions	2004 HK\$ millions
Fixed assets	1,695	1,843	2,892	3,336
Investments and long-term receivables	73	166	125	300
Licence and deferred charges	1,326	1,326	2,262	2,400
Deferred income taxes	414	94	706	170
Current assets	865	1,057	1,476	1,913
Current liabilities	(760)	(860)	(1,297)	(1,557)
Long-term liabilities	(2,536)	(2,039)	(4,326)	(3,691)
Shareholders' funds	1,077	1,587	1,838	2,871
Turnover	4,468	5,141	7,622	9,305
Profit for the year	1,163	472	1,984	854

Contingencies

- (a) On 28 October 1999, an Israeli consumer organisation lodged a claim against Partner, alleging a variety of consumer complaints and requested that this claim be recognised as a class action.

On 20 March 2002, the Haifa District Court decided to strike out the claim, because the consumer organisation lost, on 31 December 2001, a special status required under Israeli law for consumer organisations to file class action claims.

Another claim, involving a substantial amount, which was filed by a private consumer who had previously asked to join the above class action, has been brought again before the court. The court had previously frozen the proceedings of the private consumer's claim, until a decision was made in the case filed by the consumer organisation.

On 25 May 2003, the private consumer filed a request to amend his motion to file a class action claim and the proposed claim itself, and also a draft of the proposed amended motion and claim. The motion to amend was granted and on 21 January 2004, Partner has submitted its response to the certification motion.

On 24 November 2004, the court decided to strike out the motion to recognise the claim as a class action.

- (b) On 8 April 2002, a claim was filed against Partner, together with a motion to certify this claim as a class action, alleging a variety of consumer complaints. The amount of the claim against Partner is estimated at approximately NIS545 million plus additional significant amounts relating to other alleged damages. Only preliminary hearings have taken place and the parties await a decision by the court with regard to a preliminary motion to dismiss the claim, which was submitted by Partner.

At this stage, and until the claim is recognised as a class action, Partner and its legal council are unable to evaluate the probability of success of such claim, and therefore no provision has been made.

In addition Partner and its legal counsel are of the opinion that even if the request to recognise this claim as a class action is granted, and even if the plaintiff's arguments are accepted, the outcome of the claim will be significantly lower than the abovementioned amount.

- (c) On 13 April 2003, a claim was filed against Partner and other cellular telecommunication companies, together with a request to recognise this claim as a class action, for alleged violation of antitrust law, alleging that no fee should have been collected for incoming SMS messages or alternatively, that the fee collected is excessive and that it is a result of illegal co-operation between the defendants. The amount of the claim against all the defendants is estimated at approximately NIS90 million. Partner filed its response on 1 October 2003.

At this stage, no hearings have taken place and unless and until the claim is recognised as a class action, Partner and its legal council are unable to evaluate the probability of success of such claim, and therefore no provision has been made.

- (d) On 14 September 2004, a claim was filed against Partner, together with a motion to recognise this claim as a class action, alleging errors in client accounts, including charges in respect of Internet access after the client requested to block the service, and in the recording of credit balances as charges. The plaintiff claims that Partner clients have suffered damages of approximately NIS173 million over a period of two years and that Partner is in violation of the Consumer Protection Law. Partner has not yet filed a response. At this stage, no hearings have taken place and unless and until the claim is recognised as a class action, Partner and its legal council are unable to evaluate the probability of success of such claim, and therefore no provision has been made.
- (e) Partner does not have building permits for many of its cell sites and as a result is involved in numerous legal actions (including criminal proceedings against officers and directors) relating to this issue.

Most of these proceedings have been settled under plea bargain arrangements, whereby Partner has paid fines of insignificant amounts.

Management, based upon current experience and the opinion of legal counsel, does not believe that these legal actions will result in significant costs to Partner. The accounts do not include a provision in respect thereof.

- (f) Partner is a party to various claims arising in the ordinary course of its operations. Management, based upon the opinion of its legal counsel, is of the opinion that the ultimate resolution of these claims will not have a material effect on the financial position of Partner, its result of operations and cash flows. The accounts do not include a provision in respect thereof.
- (g) On 15 July 2003, the Ministry of Communications decided to decrease the deduction rate in respect of payments that "Bezeq" The Israel Communication Corp. Limited fails to collect from its customers for using Partner's network to 1.1% from 2.5%. The decision is effective retroactively for the period from 2 October 2000 and through 31 August 2003. As from 1 September 2003 the deduction rate was cancelled altogether.

Bezeq lodged an appeal with the Jerusalem District Court against the Minister's decision.

On 6 January 2004, the Supreme Court – within the framework of Partner's appeal against the District Court's verdict in respect of previous case between the parties, that related to Bezeq's failure to collect payments from its customers for using Partner's network for calls from fixed lines to mobile lines – ruled that the Minister's decision concerning the aforementioned deduction of 1.1% shall also apply to the period from 1 March 2000 to 2 October 2000, and that this deduction rate shall remain in effect or shall be amended in accordance with the outcome of the appeal lodged by Bezeq against the aforesaid decision of the Minister.

On 9 August 2004, the appeal was dismissed due to lack of jurisdiction. As a result of the dismissal of the appeal Partner has recognised as financial income an amount of NIS19.5 million, which after tax resulted in an increase of Partner's net income of NIS12.5 million.