

A WARM RECEPTION

Analysts were cautious when the Israeli government auctioned a new mobile licence five years ago, but Hutchison sprang into action to take advantage of the opportunity.

By Frank Lee



When Partner Communications paid US\$400 million in 1998 for a licence to establish the first GSM mobile telephone network in Israel, many observers saw it as folly. Marking the commercial launch in January 1999, local newspapers said the Israeli cellular market was already saturated, dominated by two of the nation's strongest corporations. The money had been wasted, they said.

But Hutchison saw something different.

In Partner's 1999 annual report, Canning Fok, HWL Group Managing Director and Chairman of Partner, noted: "The convergence of wirefree services and the Internet is opening up a new and exciting era for cellular, in which operators will increasingly differentiate themselves based on the range of services and applications they offer. As the sole GSM operator in a world-leading high-tech centre such as Israel, Partner is well positioned to leverage these resources."

Five years since its inception, the strate-

gy has paid off and the Hutchison-backed mobile telecommunications company has become an unmitigated success.

Not only has Partner defied the critics but it has done so at the speed of sound, exceeding almost every expectation. From a standing start, Partner has become a leading operator with more than two million customers and revenues that continue to be upwardly mobile.

At ground level, Israel is an exciting cellular market and its people are enthusiastic users.



It is rare to find an Israeli who does not own a mobile phone and carry it everywhere. For many Partner customers the cellular handset has become an essential personal communication device, providing voice and data services at the office, at home, while on the move in Israel, or abroad.

Previously a traditional economy based mainly on agriculture, light industry and labour-intensive production, Israel has become a knowledge-based economy with internationally competitive telecommunications, IT, electronics and life sciences industries. The country's GDP in 2002 was approximately US\$100 billion, or US\$15,782 per capita.

There are now four cellular players offering services to some six million customers. Partner was the first cellular operator in this developed market to offer GSM technology and to launch a GPRS network. From a technological point of view the Israeli market is unique, offering the widest range of technologies available in any one country, including NAMPS (analogue technology) CDMA, CDMA-1XRTT, TDMA, iDEN, and the GSM/GPRS technology, now offered by two operators.

Partner's cellular offering is distinguished by excellent voice quality, superb customer service, nationwide coverage, and a range of services specifically designed to provide communication and content solutions for residential and business customers alike.

PARTNER FOR THE PEOPLE

Partner's strategy has always been to satisfy the needs of society by understanding the particular needs of every segment.

Israeli society has been built by immigrants who have poured in from 70 countries around the globe, creating an unusual and exciting cultural diversity.

Partner provides coverage to 97% of the population using more than 2,100 cell sites, and leads the market with groundbreaking and user-friendly applications. Attractive demographics (more than 40% of the population is under 25), high technology literacy, and a keenness to use advanced services and applications create an Israeli cellular market that is ready and willing to absorb a range of innovative services.

Since many Israelis have strong ties with family members and colleagues worldwide, international services are particularly important to Partner's sub-



scribers. The company's advanced roaming capabilities – helped by the fact that virtually the whole of Europe uses the GSM standard – enable its customers to use more than 280 network partners worldwide in 125 destinations. Innovative

*Partner's customer
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roaming agreements with satellite providers enable seamless roaming in more than 40 additional countries and territories. Visitors to the country can also enjoy extensive roaming cellular services provided by Partner.

Close to home, Partner provides a vital mobile lifeline for Palestinians when they are in Israel, even during periods of heightened political tension. The company has a good working relationship with mobile operator Al-Jawwal, owned by Palestine Telecommunications Co (PAL-TEL) and is the only Israeli network to provide such a service.

Partner has been adept at responding to market needs, introducing a wide selection of useful and entertaining applications, along with customer-friendly tariff plans.

Using the *obox* services, customers can enjoy a rich selection of content, including timely updates on the latest news, stock markets, sports, weather reports and daily horoscopes – wherever they are.

One recently introduced capability, the innovative *omail* service, provides live updates of mail messages and attachments. Another, the *oklik* service, enables customers to take and send pictures from wherever they are.



TALKING POINT

Partner has brought new terminology and new thinking to the cellular market through its unique marketing and packaging strategies.

In recognition of its extraordinary flair in creating brand awareness and customer loyalty, the company has received numerous awards, medals, certificates and trophies.

When Partner launched its “one call one rate” offer, the rate plan revolutionised the Israeli market because the price of the call included all interconnect charges – a first in Israel. Another innovative concept introduced upon launch was the “talk more pay less” programme in which the customer received a lower per minute rate if he or she used the network more.

With *orange 2 go*, Partner was the first company in Israel to offer a “no commit-

ment” plan to its monthly paying subscribers. Partner knew that the best guarantee for a satisfied customer is to ensure that the customer chooses his cellular provider every day anew. Its “no obligation” rate plan emphasises the subscriber’s freedom of choice while retaining loyalty through superb customer service and network quality. Today, most of Partner’s private customers are *orange 2 go* subscribers.

Partner is always thinking of new offerings. One new idea for the youth segment is *Mix & Match*. Customers of youth brand BU can choose three out of six benefits available, adjusting their rate plan according to their individual usage patterns. Benefits include calling five family members at a discounted rate, reduced SMS rates, lower data and content rates, discounts on calling

selected friends and family, or reduced night-time and weekend rates. Each customer is free to choose the best mix.

Partner also offers unique solutions to a wide range of business customers, helping them improve service delivery to their clients.

One example is Tambur, a leading Israeli paint manufacturer and distributor. Partner’s location-based vehicle fleet management system enables Tambur’s main office to know exactly where each of its dozens of vehicles is and what merchandise is on board, allowing the company to respond to its customers needs quickly and efficiently.

“Tambur examined a few systems and chose Partner’s solution as it is the best, most efficient and quickest to implement,” said Omer Shoshani, VP Sales at Tambur.



CELEBRATING DIVERSITY

Right from the start, Partner Communications has played an important role in all aspects of Israeli society. In a country familiar with conflict and separation yet defined by a hard-working and fun-loving approach to life, Partner's multi-faceted services help bring people together – no matter what their language, religion or location.

The company's Customer Service Centre is designed to assist more than two million subscribers in four languages: Hebrew, Arabic, Russian and English.

Partner has also developed unique price plans to answer a variety of needs. For example, foreign workers are offered sophisticated rate plans for pre-paid overseas calls.

Another innovative programme called *orange Shabat* is aimed at the orthodox Jewish community and recognises particular usage patterns and needs. Subscribers who do not use their phones on the Jewish Sabbath can enjoy 60 free minutes on weeknights. But *orange Shabat* is much more than a rate plan. Partner has created a unique world of content for this segment in which observant subscribers are offered content specific to them, such as icons, ring tones, prayers, Chassidic songs and seasonal features such as holiday themes, trivia and games.

Unique services have also been developed for other individual communities, including Russian speakers and the business sector.

As an unbiased employer, the company offers job empowerment to all.

"Partner offers a unique opportunity for employment in the Arab sector, with many families relying on the company for their sole income," says Ebtihal Sheety, Team Leader in Partner's Customer Service Centre in Haifa. "Around 50% of all Arab



employees in Partner are female, with very few employment options otherwise."

Within society, Partner actively participates in many community-related activities, believing that the business sector's involvement can help improve the quality of life for many Israelis.

The company has chosen to focus its efforts on the advancement of education through the use of technology. In the past five years, Partner has built 22 computer rooms all over Israel.

"These computer rooms serve a vast population that otherwise would not have been exposed to computers and the Internet," says Amnon Gideon, Vice-president Human Resources at Partner.

"Our commitment to improving the community is such that when we recruited our two-millionth customer, we decided to forego the special activities and parties planned for our employees, and use the funds to build ten more computer rooms nationwide."

These activities are very much appreciated in Israel.

"We thank Partner for building computer rooms in our neighbourhoods," says Meir Nizan, mayor of Rishon Le'Ziyon, just outside Tel Aviv. "The computers will serve underprivileged children and adults alike who can not afford a computer."

Innovation has always been the rule at Partner. As part of its appeal to the youth, the company has operated a radio station since 1999, under the "BU" youth brand. In a few short months, BU99 FM has become the most popular radio station amongst the youth segment. Listeners can choose music by sending an SMS to the station, pick favourite artists and win prizes in hourly contests. Regular parties are organised for young listeners, who also receive discount coupons via their mobile phones.

As part of Partner's emphasis on community education, BU99 FM organises forums and seminars in schools, teaching children about the progress in communication from the Stone Age right through to 3G technology today. These activities are aimed at bringing the young population closer to the unique communications experience that Partner offers.



GOOD COMMUNICATOR

From Day One, Partner's marketing strategy has been characterised by innovation and creativity. The orange™ brand, originally developed by Hutchison in the UK, has gained major prominence in the Israeli market, and was recently recognised by *Globes*, the leading Israeli business daily, as the country's most valuable telecoms brand and second only to Coca-Cola in the general consumer market.

Underscored by a constant buzz around its award-winning advertising campaigns, Partner's rate plans, attractive family programmes and innovative marketing tools (including a radio station) have all helped establish its leading market position.

Partner's state-of-the-art call centre, located in the heart of Israel at Rosh Ha'ayin, employs enthusiastic, highly educated and well-trained personnel who are

available to answer queries seven days a week, 24 hours a day. Equipped with the latest technology, the centre can handle

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hundreds of calls simultaneously. Aided by friendly instruction manuals developed specifically for Partner's customers, an

advanced interactive response system and an appealing, interactive Internet site, users can always find answers to their questions. It is no wonder that the most prestigious Israeli management centre, the MIL, has awarded Partner's customer service the No.1 position in the country.

Partner's distribution channels are extensive, with close to 300 points of sale throughout the country, many of which are open seven days a week. The network offers diverse communications products exclusive to Partner and reaches all segments of society.

WIDENING THE GENERATION GAP

Having already established itself as a technology leader, Partner is committed to seizing the opportunity to lead the market in third generation (3G) mobile communications.



LOCAL DYNAMISM, GLOBAL BACKING

Back in April 1998 it was clear that newly formed Partner Communications had a mountain to climb.

Not only was the upstart entrant squaring off against two established mobile telecoms incumbents in an already developed market but the company had precisely six months to build the management team, hire all employees, arrange the financing and complete a nationwide network rollout in time for the soft launch of services in October that same year.

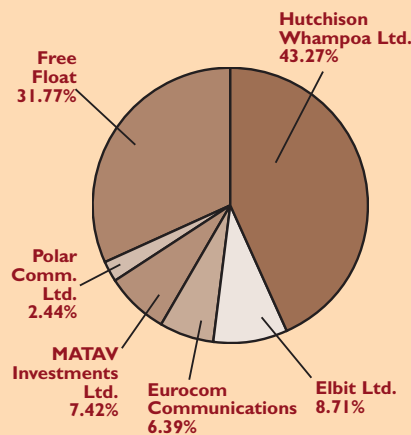
The challenge was indeed enormous, but Partner had several aces up its sleeve. The consortium combined the heft of a multinational big hitter, the savvy of key local investors and the dexterity of skilful management, led by CEO Amikam Cohen.

As Partner's majority shareholder (43.27%), Hutchison has been a defining and critical influence in the company's development, bringing it advantages unavailable to its competitors.

"We were fortunate to have strong shareholder backing," Mr Cohen recalls, "which enabled us to benefit from global telecom and local commercial expertise."

Hutchison was a proven player in the global telecoms arena and had been active-

ly seeking opportunities to expand. The company owned a highly successful telecoms operation in its home base of Hong Kong and, most notably, was in the process



Traded on NASDAQ (PTNR);
LSE (PCCD); TASE (PTNR)

of building Orange, the fastest-growing brand in Europe, which ultimately netted a jaw-dropping US\$14.6 billion profit for Hutchison when it was sold in 2000.

Fuelled by the enthusiasm of its local management while leveraging on

Hutchison's international marketing and technology expertise, the young company hit the ground running.

In August 1998, only three months after receiving the licence, Partner finalised a long-term credit facility to support its network and business rollout.

By October the initial rollout was completed, with approximately 77% coverage of the Israeli population. Full commercial operations were launched in January 1999, with 88% population coverage and supported by a nationwide distribution network.

Within 12 months of the launch, the company had cornered a remarkable 13% share of the market. The start-up was well on its way to becoming not only a leading telecoms business in Israel but one of the country's top-ten companies overall.

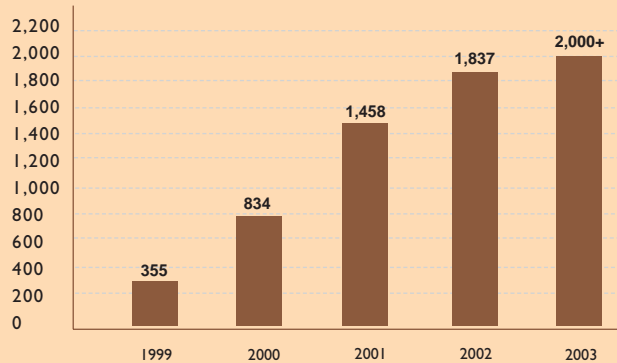
Listed on three stock exchanges, Partner enjoys support from investors across the globe.

Partner completed the largest ever IPO by an Israeli company when it listed on the NASDAQ and the London Stock Exchange in October 1999. A Tel Aviv Stock Market listing followed in 2000.

The excellent reception was seen as a vote of confidence in Partner's potential to



SUBSCRIBER BASE AT YEAR END (IN THOUSANDS)



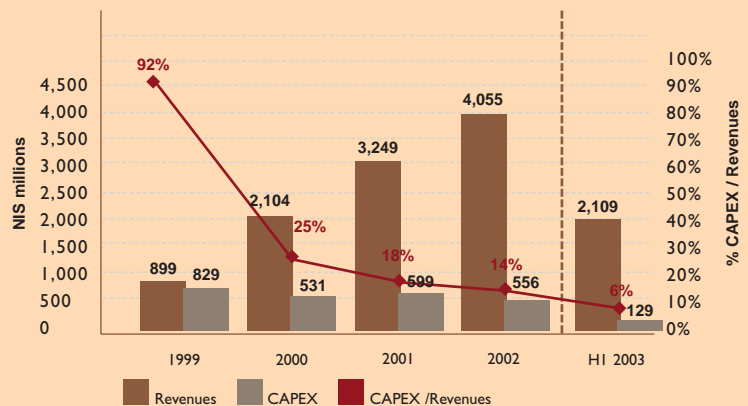
increase shareholder value. When the dust had settled, the company had raised US\$525 million and was valued at US\$2.4 billion.

Today, Partner has indeed emerged as a leader in Israel's cellular market. With approximately 31% of market share to date, it has had the highest growth rate in the industry in Israel, taking the lion's share of new revenues and subscribers while meeting all its ambitious financial and operating targets. Partner reported operating profit of US\$60.1 million in Q3 2003 – a 64% leap compared to the same period the year before and up from US\$50.6 million in the previous quarter.

“We successfully demonstrated our ability to sustain healthy margins and grow our revenues while reducing our overall debt levels,” said Chief Financial Officer Alan Gelman.

Marking Partner's fifth anniversary, Hutchison Group MD Canning Fok was ebullient: “With involvement in a large number of companies on five continents, we at Hutchison have found Partner's management truly outstanding,” he said. “With its clear strategic focus, great dedication and strong leadership, Partner has replaced the word ‘impossible’ with ‘it can be done.’”

CAPEX / REVENUES



Leveraging on the 3G licence it was awarded in a tender in 2001, Partner will start rolling out the network early in 2004, with commercial service expected later in the year.

Relatively low capital expenditure requirements for both network rollout and licence payments and the ability to save significantly on 2G maintenance expenditure by using a 3G network make the business case for Partner's 3G operations – already fully financed – even more attractive.

Partner's relationship with Hutchison puts it in a particularly enviable position in the development of products and services for its 3G businesses.

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products and services, Hutchison can share with Partner the combined expertise and synergies gained within the Group to the benefit of Israeli consumers. Customers of the company's future 3 services will enjoy powerful mobile multi-media communications, commerce opportunities, and data-rich content, with an infinite capacity to entertain, educate, and inform.

"These are going to be very exciting years for Partner," says Dr Dan Eldar, Partner's Vice President. "We now see a more mature company, operating in a more mature market with penetration levels that are higher. We have seen Partner leading this market with the strongest cumulative growth rate, both in terms of subscribers and in terms of revenues, and we intend to continue this trend. In the coming years Partner has a very significant growth opportunity in Israel and the primary source for this growth is 3G."

