

PARTNER COMMUNICATIONS CO LTD  
Form 20-F  
March 16, 2010

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As filed with the Securities and Exchange Commission on March 16, 2010

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

FORM 20-F

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

OR

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009

OR

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

OR

- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 1-14968

PARTNER COMMUNICATIONS COMPANY LTD.  
(Exact Name of Registrant as Specified in its Charter)

ISRAEL  
(Jurisdiction of Incorporation or Organization)

8 AMAL STREET  
AFEQ INDUSTRIAL PARK  
ROSH-HA'AYIN 48103  
ISRAEL  
(Address of Principal Executive Offices)

Roly Klinger

ExecutiveOffices@orange.co.il

(Name, Telephone, E-mail and/or facsimile Number and Address of Company Contact Person)

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Securities registered pursuant to Section 12(b) of the Act:

| Title of each class  | Name of each exchange on which registered |
|--|---|
| American Depositary Shares, each representing one ordinary share, nominal value NIS 0.01 per share | The NASDAQ Global Market                  |
| Ordinary Shares, nominal value NIS 0.01 per share*   | The NASDAQ Global Market                  |

\* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

|                                  |             |
|----------------------------------|-------------|
| ORDINARY SHARES OF NIS 0.01 EACH | 154,440,136 |
|----------------------------------|-------------|

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

YES  NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934.

YES  NO

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

YES  NO

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

YES  NO

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer       Accelerated Filer       Non-Accelerated Filer

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

U.S. GAAP       International Financial Reporting Standards as issued by the International Accounting Standards Board       Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

ITEM 17       ITEM 18

If this is an annual report, indicate by checkmark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

YES       NO

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## INTRODUCTION

As used herein, references to “we,” “our,” “us,” “Partner” or the “Company” are references to Partner Communications Company Ltd. and its wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., Partner Land-Line Communications Solutions LLP and Partner Business Communications Solutions LLP (of which Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner), except as the context otherwise requires. In addition, references to our “financial statements” are to our consolidated financial statements except as the context otherwise requires.

In this document, references to “\$,” “US\$,” “US dollars” and “dollars” are to United States dollars, and references to “NIS” and “shekels” are to New Israeli Shekels. We maintain our financial books and records in shekels. This annual report contains translations of NIS amounts into US dollars at specified rates solely for the convenience of the reader. No representation is made that the amounts referred to in this annual report as convenience translations could have been or could be converted from NIS into US dollars at these rates, at any particular rate or at all. The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2009, of NIS 3.775 = US\$1.00 as published by the Bank of Israel, unless otherwise specified. See “Item 3A. Key Information – Selected Financial Data – Exchange Rate Data”.

We have provided a glossary at the end of this document for certain technical terms and abbreviations used herein and in our industry.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

Our financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (“IFRS”) published by the International Accounting Standards Board (“IASB”). See “Item 18. Financial Statements” and “Item 5A. Operating and Financial Review and Prospects – Operating Results”.

## FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, Section 21E of the US Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Words such as “believe,” “anticipate,” “expect,” “intend,” “seek,” “will,” “plan,” “could,” “may,” “project,” “goal,” “target” and similar expressions often identify forward-looking statements but are not the only way we identify these statements. All statements other than statements of historical fact included in this annual report, including the statements in the sections of this annual report entitled “Item 3D. Key Information – Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects” and elsewhere in this annual report regarding our future performance, plans to increase revenues or margins or preserve or expand market share in existing or new markets, reduce expenses and any statements regarding other future events or our future prospects, are forward-looking statements.

We have based these forward-looking statements on our current knowledge and our present beliefs and expectations regarding possible future events. These forward-looking statements are subject to risks, uncertainties and assumptions about Partner, consumer habits and preferences in cellular telephone usage, trends in the Israeli telecommunications industry in general, the impact of current global economic conditions and possible regulatory and legal developments. For a description of some of the risks we face, see “Item 3D. Key Information – Risk Factors,” “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects,” “Item 8A. Consolidated Financial Statements and Other Financial Information – Legal and Administrative Proceedings” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk”. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur, and actual results may differ materially from the results anticipated.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

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

Until December 31, 2008, the Company’s consolidated financial statements were prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). We have therefore restated our consolidated financial information at and for the year ended December 31, 2008, in accordance with IFRS 1, on “First Time Adoption of IFRS”, and financial information set forth in this Annual Report for the year ended December 31, 2008, may differ from information previously published. A description of the main differences between U.S. GAAP and IFRS is set forth in Note 25 to our consolidated financial statements.

As a first-time adopter of IFRS at January 1, 2009, the Company has followed the specific prescriptions described in IFRS 1. The options selected for the purpose of the transition to IFRS are described in the Notes to the consolidated financial statements. Impacts of the transition on the balance sheet at January 1, 2008, the profit and loss for the year ended December 31, 2008, and the balance sheet at December 31, 2008, are presented and commented upon in Note 25 to our consolidated financial statements.

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

The tables below at and for the years ended December 31, 2008, 2007, 2006 and 2005, set forth selected consolidated financial information under U.S. GAAP, which has been derived from our previously published audited consolidated financial statements at and for the years ending on such dates.

| IFRS   | Year ended December 31,                                    |       | 2009<br>US\$ in<br>millions (1) |
|--|--|-------|---------------------------------|
|  | 2008   | 2009  |                                 |
|  | New Israeli Shekels in millions<br>(except per share data) |       |                                 |
| <b>Consolidated Statement of<br/>Income Data</b> |  |       |                                 |
| Revenues, net                                    | 6,302  | 6,079 | 1,610                           |
| Cost of revenues                                 | 3,868  | 3,770 | 998                             |
| Gross profit                                     | 2,434  | 2,309 | 612                             |
| Selling and marketing Expenses                   | 388  | 387   | 103                             |
| General and administrative<br>Expenses           | 284  | 290   | 77                              |
| Other income - Net                               | 64   | 69    | 19                              |
| Operating profit                                 | 1,826  | 1,701 | 451                             |
| Finance income                                   | 30   | 28    | 7                               |
| Finance expenses                                 | 214  | 204   | 54                              |
| Finance costs, net                               | 184  | 176   | 47                              |
| Profit before income tax                         | 1,642  | 1,525 | 404                             |
| Income tax expenses                              | 444  | 384   | 102                             |
| Profit for the year                              | 1,198  | 1,141 | 302                             |

| IFRS  | Year ended December 31,  |         | 2009<br>US\$ in<br>millions<br>(except share<br>and per share<br>data) (1) |
|---|--|---------|--|
|   | 2008   | 2009    |  |
|   | New Israeli Shekels in millions<br>(except share and per share data) |         |  |
| <b>Earnings per ordinary share and per ADS</b>                      |  |         |  |
| Basic:  | 7.71   | 7.42    | 1.96   |
| Diluted   | 7.65   | 7.37    | 1.95   |
| <b>Weighted average number of shares outstanding (in thousands)</b> |  |         |  |
| Basic:  | 155,350  | 153,809 | 153,809  |
| Diluted:  | 156,520  | 154,817 | 154,817  |
| <b>Other Financial Data</b>   |  |         |  |
| Capital expenditures (2)  | 589  | 522     | 138  |
| EBITDA(3)   | 2,298  | 2,304   | 610  |
| Dividend per share (4)  | 5.45   | 6.86    | 1.82   |
| <b>Statement of Cash Flow Data</b>                                  |  |         |  |
| Net cash provided by operating activities                           | 1,915  | 1,753   | 463  |
| Net cash used in investing activities                               | (514 )   | (732 )  | (193 )   |
| Net cash used in financing activities                               | (1,365 )   | (876 )  | (232 )   |
| <b>Balance Sheet Data (at year end)</b>                             |  |         |  |
| Current assets  | 1,472  | 1,807   | 479  |
| Non current assets  | 3,693  | 3,816   | 1,011  |
| Trade receivables   | 417  | 474     | 126  |
| Property and equipment  | 1,935  | 2,064   | 546  |

|  |       |       |       |
|--|-------|-------|-------|
| License and other intangible assets        | 1,260 | 1,260 | 334   |
| Deferred income taxes                      | 81    | 14    | 4     |
| Derivative financial instruments           | –     | 4     | 1     |
| Total assets                               | 5,165 | 5,623 | 1,490 |
| Current liabilities (5)                    | 1,734 | 1,915 | 507   |
| Long-term liabilities (5)                  | 1,699 | 1,746 | 463   |
| Total liabilities                          | 3,433 | 3,661 | 970   |
| Shareholders' equity                       | 1,732 | 1,962 | 520   |
| Total liabilities and shareholders' equity | 5,165 | 5,623 | 1,490 |

| US. GAAP  | Year ended December 31,                                 |       |       |       |
|---|---|-------|-------|-------|
|   | 2005  | 2006  | 2007  | 2008  |
|   | New Israeli Shekels in millions (except per share data) |       |       |       |
| <b>Statement of Operations Data</b>   |   |       |       |       |
| <b>Revenues, net</b>  |   |       |       |       |
| Services  | 4,620   | 5,027 | 5,329 | 5,546 |
| Equipment   | 503   | 580   | 785   | 756   |
|   | 5,123   | 5,607 | 6,114 | 6,302 |
| <b>Cost of revenues</b>   |   |       |       |       |
| Services  | 3,022   | 3,088 | 3,090 | 3,209 |
| Equipment   | 744   | 812   | 1,002 | 843   |
|   | 3,766   | 3,900 | 4,092 | 4,052 |
| Gross profit  | 1,357   | 1,706 | 2,022 | 2,250 |
| <b>Selling and marketing Expenses</b>   |   |       |       |       |
| General and administrative Expenses   | 273   | 309   | 392   | 389   |
|   | 181   | 184   | 231   | 256   |
| Operating profit  | 903   | 1,214 | 1,399 | 1,605 |
| Financial expenses, net   | 345   | 162   | 121   | 158   |
| Loss on impairment of investments in non-marketable securities                | –   | –     | –     | –     |
| Income before tax   | 557   | 1,052 | 1,278 | 1,447 |
| Tax expenses  | 203   | 371   | 338   | 396   |
| Income before cumulative effect of a change in accounting Principles          | 355   | 681   | 940   | 1,051 |
| Cumulative effect, at beginning of year, of a change in accounting Principles | –   | 1     | –     | –     |
| Net income for the year   | 355   | 682   | 940   | 1,051 |



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| U.S.GAAP  | Year ended December 31, |         |         |          |
|---|-------------------------|---------|---------|----------|
|   | 2005                    | 2006    | 2007    | 2008     |
| New Israeli Shekels in millions (except share and per share data)   |                         |         |         |          |
| <b>Earnings per ordinary share and per ADS</b>                      |                         |         |         |          |
| <b>Basic:</b>   |                         |         |         |          |
| Before cumulative effect  | 2.19                    | 4.43    | 6.01    | 6.77     |
| Cumulative effect   | –                       | 0.01    | –       | –        |
|   | 2.19                    | 4.44    | 6.01    | 6.77     |
| <b>Diluted:</b>   |                         |         |         |          |
| Before cumulative effect  | 2.17                    | 4.40    | 5.96    | 6.73     |
| Cumulative effect   | –                       | 0.01    | –       | –        |
|   | 2.17                    | 4.41    | 5.96    | 6.73     |
| <b>Weighted average number of shares outstanding (in thousands)</b> |                         |         |         |          |
| Basic:  | 161,711                 | 153,634 | 156,415 | 155,350  |
| Diluted:  | 163,617                 | 154,678 | 157,787 | 156,520  |
| <b>Other Financial Data</b>   |                         |         |         |          |
| Capital expenditures (2)  | 502                     | 507     | 499     | 590      |
| EBITDA(3)   | 1,569                   | 1,846   | 2,009   | 2,257    |
| Dividend per share (4)  | 1.22                    | 2.63    | 4.77    | 5.45     |
| <b>Statement of Cash Flow Data</b>                                  |                         |         |         |          |
| Net cash provided by operating activities                           | 1,006                   | 1,216   | 1,446   | 1,839    |
| Net cash used in investing activities                               | (547 )                  | (442 )  | (529 )  | (531 )   |
| Net cash provided by used in financing activities                   | (460 )                  | (701 )  | (846 )  | (1,273 ) |
| <b>Balance Sheet Data (at year end)</b>                             |                         |         |         |          |
| Current assets  | 1,171                   | 1,274   | 1,520   | 1,542    |
| Investments and long-term receivables                               | 264                     | 356     | 535     | 499      |

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|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Fixed assets, net                          | 1,769 | 1,748 | 1,728 | 1,756 |
| License and deferred charges, net          | 1,321 | 1,247 | 1,154 | 1,061 |
| Deferred income taxes                      | 87    | 76    | 94    | 110   |
| Total assets                               | 4,612 | 4,701 | 5,031 | 4,968 |
| Current liabilities (5)                    | 987   | 1,028 | 1,157 | 1,734 |
| Long-term liabilities (5)                  | 2,810 | 2,418 | 2,219 | 1,794 |
| Total liabilities                          | 3,797 | 3,446 | 3,376 | 3,529 |
| Shareholders' equity                       | 815   | 1,255 | 1,655 | 1,439 |
| Total liabilities and shareholders' equity | 4,612 | 4,701 | 5,031 | 4,968 |



- (1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2009, of NIS 3.775 = US\$1.00 as published by the Bank of Israel, unless otherwise specified. See “Item 3A. Key Information – Selected Financial Data – Exchange Rate Data”.
- (2) Capital Expenditure represents additions to property and equipment and computer software. Capital expenditure in our previous Annual Reports on Form 20-F was reported net of disposals.
- (3) EBITDA is a non-GAAP financial measure that represents earnings before interest, taxes, depreciation and amortization. EBITDA is presented because it is a measure commonly used in the telecommunications industry and is presented solely to enhance the understanding of our operating results. EBITDA, however, should not be considered as an alternative to operating income or income for the year as an indicator of our operating performance. Similarly, EBITDA should not be considered as an alternative to cash flow 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 our historic operating results nor is it meant to be predictive of potential future results. For a reconciliation of EBITDA to Operating Cash flow, see below.
- (4) The dividend per share was calculated in respect of the period for which it was announced. For the year 2009, the Company distributed dividends and declared a final dividend on March 16, 2010 (with respect to the fourth quarter of 2009), which in the aggregate amounted to approximately NIS 1,059 million (US\$ 281 million), or NIS 6.86 per share, representing a payout ratio of approximately 93% of our annual net income for the year.
- (5) See Notes 13, 14, and 15 to our consolidated financial statements for information regarding long-term liabilities and current maturities of long-term bank loans.

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

| IFRS  | Year ended December 31,         |              | 2009<br>US \$ in<br>millions<br>(1) |
|---|---------------------------------|--------------|-------------------------------------|
|   | 2008                            | 2009         |                                     |
|   | New Israeli Shekels in millions |              |                                     |
| <b>Reconciliation Between<br/>Operating Cashflow and<br/>EBITDA</b>         |                                 |              |                                     |
| Net cash provided by operating activities                                   | 1,915                           | 1,753        | 463                                 |
| Liability for employee rights upon retirement                               | (5 )                            | (1 )         |                                     |
| Accrued interest, exchange and linkage differences on long-term liabilities | (182 )                          | (167 )       | (44 )                               |
| Increase (Decrease) in accounts receivable:                                 |                                 |              |                                     |
| Trade   | (47 )                           | 229          | 61                                  |
| Other (*)   | (4 )                            | 16           | 4                                   |
| Decrease (Increase) in accounts payable and accruals:                       |                                 |              |                                     |
| Trade   | (10 )                           | (43 )        | (11 )                               |
| Parent group-trade  | (1 )                            | 17           | 5                                   |
| Other (*)   | 468                             | 296          | 78                                  |
| Increase (decrease) in inventories  | (8 )                            | 33           | 9                                   |
| Decrease (Increase) in asset retirement obligation                          | (1 )                            | 1            |                                     |
| Financial expenses (**)   | 173                             | 170          | 45                                  |
| <b>EBITDA</b>   | <b>2,298</b>                    | <b>2,304</b> | <b>610</b>                          |

The tables below at and for the years ended December 31, 2008, 2007, 2006 and 2005 set forth selected financial information under U.S. GAAP.

| U.S. GAAP   | Year ended December 31,         |              |              |              |
|---|---------------------------------|--------------|--------------|--------------|
|   | 2005                            | 2006         | 2007         | 2008         |
|   | New Israeli Shekels in millions |              |              |              |
| <b>Reconciliation Between Operating Cashflow and EBITDA</b>                 |                                 |              |              |              |
| Net cash provided by operating activities                                   | 1,009                           | 1,216        | 1,446        | 1,839        |
| Liability for employee rights upon retirement                               | (9 )                            | (11 )        | (18 )        | (16 )        |
| Accrued interest, exchange and linkage differences on long-term liabilities | (108 )                          | 5            | (60 )        | (94 )        |
| Amount carried to deferred charges  | 14                              | –            | –            | –            |
| Gain (loss) from assets in respect of severance pay funds                   | (3 )                            | 5            | 6            | (16 )        |
| Increase (Decrease) in accounts receivable:                                 |                                 |              |              |              |
| Trade   | 262                             | 255          | 329          | (47 )        |
| Other (*)   | 27                              | 311          | 2            | (13 )        |
| Decrease (Increase) in accounts payable and accruals:                       |                                 |              |              |              |
| Trade   | (113 )                          | 58           | (101 )       | (9 )         |
| Related parties   | (11 )                           | (5 )         | 12           | (1 )         |
| Other (*)   | 76                              | (50 )        | 276          | 476          |
| Decrease (Increase) in inventories  |                                 |              |              |              |
|   | 108                             | (87 )        | 9            | (8 )         |
| Decrease (Increase) in asset retirement obligation                          |                                 |              |              |              |
|   | -                               | (1 )         | (1 )         | (1 )         |
| Financial expenses (**)   | 320                             | 150          | 109          | 147          |
| <b>EBITDA</b>   | <b>1,572</b>                    | <b>1,846</b> | <b>2,009</b> | <b>2,257</b> |

(1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2009, of NIS 3.775 = US\$1.00 as published by the Bank of Israel, unless otherwise specified. See “Item 3A. Key Information – Selected Financial Data – Exchange Rate Data”.

(\*) Excluding provision for tax expenses.

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



|  | 2007   |  | At December 31,<br>2008         |  | 2009    |  |        |  |        |  |
|--|--------|--|---------------------------------|--|---------|--|--------|--|--------|--|
| <b>Industry Data</b>   |        |  |                                 |  |         |  |        |  |        |  |
| Estimated population of Israel (in millions) (1)                               | 7.2    |  | 7.4                             |  | 7.5     |  |        |  |        |  |
| Estimated Israeli cellular telephone subscribers (in millions) (2)             | 9.0    |  | 9.1                             |  | 9.6     |  |        |  |        |  |
| Estimated Israeli cellular telephone penetration (3)                           | 124    |  | % 124                           |  | % 127 % |  |        |  |        |  |
|  | 2005   |  | Year ended December 31,<br>2006 |  | 2007    |  | 2008   |  | 2009   |  |
| <b>Partner Data</b>  |        |  |                                 |  |         |  |        |  |        |  |
| Subscribers (000's) (at period end) (4)  | 2,529  |  | 2,668                           |  | 2,860   |  | 2,898  |  | 3,042  |  |
| Pre-paid subscribers (000's) (at period end) (4)                               | 754    |  | 781                             |  | 792     |  | 745    |  | 811    |  |
| Post-paid subscribers (000's) (at period end) (4)                              | 1,775  |  | 1,887                           |  | 2,068   |  | 2,153  |  | 2,231  |  |
| Share of total Israeli subscribers (at period end) (5)                         | 32 %   |  | 32 %                            |  | 32 %    |  | 32 %   |  | 32 %   |  |
| Average monthly usage per subscriber ("MOU") (mins.) (6)                       | 294    |  | 311                             |  | 336     |  | 365    |  | 364    |  |
| Average monthly revenue per subscriber including in roaming ("ARPU") (NIS) (7) | 159    |  | 161                             |  | 161     |  | 161    |  | 151    |  |
| Churn rate (8)   | 13.6 % |  | 15.6 %                          |  | 15.0 %  |  | 17.8 % |  | 17.7 % |  |
| Estimated coverage of Israeli population (at period end) (9)                   | 97 %   |  | 97 %                            |  | 97 %    |  | 98 %   |  | 98 %   |  |
| Number of employees (full time equivalent) (at period end) (10)                | 3,403  |  | 3,714                           |  | 4,130   |  | 4,671  |  | 5,670  |  |

(1) The population estimates are as published by the Central Bureau of Statistics in Israel as of December 31, 2009.

(2) We have estimated the total number of Israeli cellular telephone subscribers from information contained in published reports issued by, and public statements made by, Pelephone Communications Ltd. ("Pelephone") and Cellcom Israel Ltd. ("Cellcom"), or by their shareholders, and from Partner subscriber data at December 31, 2007, 2008 and 2009.

(3) Total number of estimated Israeli cellular telephone subscribers expressed as a percentage of the estimated population of Israel. The total number of estimated cellular telephone subscribers includes dormant subscribers as well as other subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers.

(4) In accordance with general practice in the cellular telephone industry, we use the term “subscriber”, unless the context otherwise requires, to indicate a telephone or a data or video device, rather than either a bill-paying network customer, who may have a number of telephones connected to the network, or a cellular telephone user who may share a single telephone with a number of other users. “Subscriber” includes our pre-paid customers. As of 2008, a pre-paid subscriber is recognized as such only following the actual use of his pre-paid SIM card. Based on this policy in January 2008, we reduced the number of reported pre-paid subscribers by approximately 61,000. Applying this policy retroactively, the increase in subscribers in 2008 was 3.5%.

References to the number of subscribers are stated net of subscribers who leave or are disconnected from the network, or who have not generated revenue for the Company for a period of over six consecutive months ending at a reporting date.

(5) Total number of Partner subscribers expressed as a percentage of the estimated total number of Israeli subscribers.

(6) We have calculated our average monthly usage per subscriber by (i) dividing, for each month in such period, the total number of minutes of usage, excluding in roaming usage, during such month by the average of the number of our subscribers, and (ii) dividing the sum of such results by the number of months in the relevant period.

(7) We have calculated Partner average monthly revenue per subscriber by (i) dividing, for each month in the relevant year, the Partner revenue during the month, excluding revenue from equipment sales but including revenues from handset warranties and including revenue from foreign network operators for calls made by their roaming customers while in Israel using our network, by the average number of Partner subscribers during that month, and (ii) dividing the sum of all such results by the number of months in the relevant period.

(8) We define the “churn rate” as the total number of subscribers who disconnect from our network, either involuntarily or voluntarily, in a given period expressed as a percentage of the average of the number of our subscribers at the beginning and end of such period. Our churn rate includes subscribers who have not generated revenue for us for a period of the last six consecutive months ending at a reporting date. This includes subscribers who have generated minute revenues only from incoming calls directed to their voice mail. Involuntary churn includes disconnections due to non-payment of bills or suspected fraudulent use, and voluntary churn includes disconnections due to subscribers terminating their use of our services.

(9) We measure coverage using computerized models of our network, radio propagation characteristics and topographic information to predict signal levels at two meters above ground level in areas where we operate a network site. According to these coverage results, we estimate the population serviced by our network and divide this by the estimated total population of Israel. Population estimates are published by the Central Bureau of Statistics in Israel.

(10) A full-time employee is contracted to work a standard 186 hours per month. Part-time employees are converted to full-time equivalents by dividing their contracted hours per month by the full-time standard. The result is added to the number of full-time employees to determine the number of employees on a full-time equivalent basis.

## Exchange Rate Data

The following table sets forth, for the years indicated, exchange rates between the shekel and the US dollar, expressed as shekels per US dollar and based upon the daily representative rate of exchange on the last day of each year as published by the Bank of Israel.

|               | Year ended December 31, |       |       |       |       |
|---------------|-------------------------|-------|-------|-------|-------|
|               | 2005                    | 2006  | 2007  | 2008  | 2009  |
| Average(1)    | 4.485                   | 4.457 | 4.108 | 3.588 | 3.927 |
| High          | 4.741                   | 4.725 | 4.342 | 4.022 | 4.256 |
| Low           | 4.299                   | 4.176 | 3.830 | 3.230 | 3.690 |
| End of period | 4.603                   | 4.225 | 3.846 | 3.802 | 3.775 |

(1) Calculated based on the average of the exchange rates on the last day of each month during the relevant period.

|      | September<br>2009 | October<br>2009 | November<br>2009 | December<br>2009 | January<br>2010 | February<br>2010 | March<br>2010<br>(through<br>March<br>15) |
|------|-------------------|-----------------|------------------|------------------|-----------------|------------------|---|
| High | 3.807             | 3.780           | 3.826            | 3.815            | 3.765           | 3.796            | 3.787                                     |
| Low  | 3.729             | 3.690           | 3.741            | 3.772            | 3.667           | 3.704            | 3.715                                     |

On December 31, 2009, the exchange rate was NIS 3.775 per US\$1.00 as published by the Bank of Israel. Changes in the exchange rate between the shekel and the US dollar could materially affect our financial results.

## 3B. Capitalization and Indebtedness

Not applicable.

## 3C. Reasons for the Offer and Use of Proceeds

Not applicable.

### 3D. Risk Factors

You should carefully consider the risks described below and the other information in this Annual Report. 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 roaming charges, interconnect tariffs 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; and obligations under our operating license. In addition, the Ministry of Communications has announced its intention to increase competition in the cellular market by, among other measures, allowing site sharing, national roaming, and providing Worldwide Interoperability for Microwave Access (“WiMAX”) licenses and/or other licenses, for the use of our cellular network by other telecommunications services providers using competing or complementary technologies, such as Voice Over Broadband over cellular (“VoBoC”). In January 2010, the Ministry of Communications adopted regulations providing for Mobile Virtual Network Operator (“MVNO”) licenses. Together with the Finance Ministry, the Ministry of Communications has established an integrated tender committee to prepare for the possible allocation on UMTS frequency to an additional infrastructure-based cellular operator in Israel.

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, and 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. For information regarding the principal regulations and regulatory developments affecting our business, see “Item 4B. Business Overview – Regulation”.

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. For information regarding on-going litigation or proceedings, see “Item 8A. Consolidated Financial Statements and Other Financial Information – Legal and Administrative Proceedings”.



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, since 2006, and more recently in November 2008 and February 2009, has requested us and our competitors to provide information regarding our roaming services. In addition, 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. The Ministry of Communications is conducting hearings and, depending on the outcome of these hearings, may implement new regulations that would limit fees charged by Israeli cellular companies for calls made by foreign network operators’ subscribers while in Israel using our network, as well as for calls made by our own subscribers using their handsets abroad.

Because we consider roaming charges to be a significant source of revenue and profits, if roaming tariffs are reduced 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.

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 and environmental permits required for the erection and operation of our network sites. As of December 31, 2009, less than 10% of our network sites were operating without local building permits or applicable exemptions. A portion of these sites are microsites whose removal or repositioning would involve relatively low costs and little change in our network capacity.

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. See “Item 8A. Consolidated Financial Statements and Other Financial Information – Legal and Administrative Proceedings”. 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.

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. Current proposed changes impose additional restrictions and/or requirements on the construction and operation of network sites and could, if adopted, harm our ability to construct new network sites, make the process of obtaining building permits for the construction and operation of network sites more cumbersome and costly, and may delay the future deployment of our network.

Uncertainties regarding the validity of exemptions for wireless access devices. In addition, 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 instructed that an inter-ministry committee be established to examine the appropriateness of future applications of the exemption to wireless access devices given the changed circumstances since the enactment of the exemption. On June 25, 2009, an inter-ministry committee, which had been established to examine this issue, published a report indicating that the different Ministries participating in the committee did not agree on the applicability of the exemption. As a result, the Attorney General instructed the Ministry of Interior to prepare regulations setting conditions that would limit the exemption to extraordinary circumstances. On March 7, 2010, the Minister of Interior submitted such regulations for the approval of the Economic Committee of the Israeli Parliament. If these regulations are approved, they could adversely affect the Company's existing network and network build-out. 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 would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

Following two petitions that were filed with the High Court of Justice opposing the Attorney General's recommendation that the exemption apply under certain conditions, one of the petitioners filed on March 12, 2010 a request for an interim injunction that would prohibit the construction of new wireless access devices based on the exemption. The court has not yet decided on this matter.

Non-ionizing radiation regulations. The Ministry of Environmental Protection has recently proposed regulations regarding levels of maximum allowable exposure to radio frequencies which includes a prohibition on placing small communications devices on balconies and inside residential apartments. If the proposed regulations are approved, we and other Israeli cellular operators would no longer be able to install additional wireless access devices on roof balconies, which could adversely affect our existing network and network build-out.

See also “Difficulties in obtaining environmental permits” below for further risks in connection with wireless access devices.

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.

Difficulties in obtaining environmental permits. The Non-Ionizing Radiation law, 2006, most of which entered into effect on January 1, 2007, defines the various powers of the Ministry of Environmental Protection as they relate, among other matters, to the granting of permits for network sites. Pursuant to this law, the Ministry of Environmental Protection will grant an operating permit for a site only if a building permit has been properly obtained for such site. In October 2007, the Commissioner of Environmental Protection decided that he will not grant and/or renew operating permits to wireless access devices, where the local planning and building committee’s engineer objected and stated that the wireless access device requires a building permit. Operating a network site or a facility without an operating permit from the Ministry of Environmental Protection could subject us and our officers and directors to criminal, administrative and civil liability. We are cooperating with the other two cellular companies.

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. We do not know when the Plan will be amended, or whether it will require full indemnification.

As of December 31, 2009, we have provided local authorities with 348 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 February 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 may be required in the future to offer access to our network infrastructure to other operators, which may enable new competitors, such as MVNOs, to enter the market, reduce our ability to provide quality services to our subscribers and negatively affect our operating results.

Under both the Communications Law (Telecommunications and Broadcasting), 1982, and our operating license, the Ministry of Communications has the power to require us, and the other telephone operators in Israel, to offer access to our network infrastructure to other operators. The Grunau Committee, a public commission appointed by the Ministry of Communications to review various issues in the Israeli communications market, published its recommendations in March 2008, and recommended accelerating the regulatory process required for the entry of MVNOs into the mobile telecommunications market. In August 2008, the Ministry of Communications adopted most of the committee's recommendations and in January 2009 began conducting hearings regarding the granting of licenses that regulate the activities of MVNO operators. In November 2009 the Ministry of Communications published a draft MVNO license.

In July 2009, the Financial Arrangements law was adopted by the Israeli Parliament, which includes an amendment of the Communications Law (Telecommunications and Broadcasting), 1982 regarding the entry of MVNOs into the mobile telecommunications market. The amendment authorizes the Ministry of Communications to grant an MVNO license and sets out the Ministry of Communications' obligation to determine the terms of granting an MVNO license by October 1, 2009. According to the amendment, in case the MVNO does not reach a commercial agreement with a mobile telephone operator within six months from the beginning of negotiations and if the Ministry of Communications and the Ministry of Finance are convinced that the terms of use that the mobile telephone operator has requested are unreasonable, then the Ministry of Communications will instruct the mobile telephone operator to allow the MVNO to use their network and shall set the fees and terms of use.

In January 2010 the Ministry of Communications published its decision regarding MVNOs and issued regulations regarding this matter. The regulations impose certain conditions on related companies of cellular companies that apply for an MVNO license. See "Item 4B. Business Overview – Regulation – Regulatory Developments".

In addition, the Ministry of Communications has established an integrated tender committee with the Finance Ministry to among other things, prepare for the possible allocation on UMTS frequency to an additional infrastructure-based cellular operator in Israel. See "Item 4B. Business Overview-Regulatory Developments".

These new regulatory developments have significantly lowered the entry barriers for potential new competitors and increased the likelihood of additional new competitors entering the mobile telephone market in Israel. Our capacity is limited, and if we are required to allocate capacity to other operators, the services to our subscribers may be harmed or we may be required to invest additional capital in order to enable additional use of our network. If we fail to agree with new operators that are given access to our network regarding the tariffs and additional conditions for the usage of our infrastructure, the Ministry of Communications may impose tariffs as well as the terms and conditions of such

usage. If the Ministry of Communications sets those tariffs too low, this may adversely affect our financial condition. In addition, operators, such as MVNOs, might offer mobile telecommunication services to our current customers at prices that are lower than our prices, thereby reducing our market share and/or causing price erosion and adversely affecting our financial results and condition. The impact of these developments may have a material effect on our competitive position and thus our business and operating results.



We may be required to terminate the use of certain spectrum or to share with another operator some of the spectrum we are currently using on an exclusive basis, or to pay additional fees for the use of our current spectrum. These requirements may adversely affect our network quality and capacity as well as our results of operations.

There are demands from different third parties to rearrange the current spectrum allocation in Israel and the Palestinian Administered Areas, particularly the 900 Mhz frequencies, and also to allocate additional frequencies for the use of other mobile operators in the Palestinian Administered Areas. There are also demands to allocate additional frequencies for mobile operators, including WiMAX operators, which we may need for our next generation GSM technology. Some of these frequencies have already been allocated to third parties. If such frequencies are not available to us in the future, it may harm our ability to migrate to the next generation of GSM technology, such as Long Term Evolution (“LTE”).

Also, if such a frequency rearrangement takes place, then the spectrum that has been allocated to us for use on an exclusive basis may also be allocated to another operator in the Palestinian Administered Areas, or we may be required to terminate the use of part of our existing spectrum, which might be replaced by an allocation of a new band of spectrum that may be of inferior quality.

We have received notification from the Civil Administration in Judea and Samaria of its intention to change the allocation of some of the spectrum previously allocated to us for our use in the West Bank, and that following the change, we may be allocated other spectrum in the West Bank and additional spectrum for our use in Israel. Until we receive further details regarding this allocation of spectrum, we are unable to evaluate the impact that the intended change in spectrum allocation, if it occurs, will have on our business or our results of operations.

If we were to be prevented from using a portion of our existing spectrum, or if alternative equivalent spectrum are not allocated to us, or if we were to be required to share some of our spectrum or to pay significant additional amounts for use of our existing spectrum, this could affect our ability to establish a UMTS 900 network and have a material adverse effect on our operations and profitability.

We can only operate our business for as long as we have a license from the Ministry of Communications.

We conduct our operations primarily pursuant to a general mobile telephone license granted to us by the Ministry of Communications on April 7, 1998. Our license is valid until February 2022. Our license may be extended for an additional six-year period upon our request to the Ministry of Communications and confirmation from the Ministry that we have met certain performance requirements. We may request renewal of our license for successive six-year periods thereafter, subject to regulatory approval. We cannot be certain that our license will not be revoked, will be extended when necessary, or, if extended, on what terms an extension may be granted.

Furthermore, although we believe that we are currently in compliance with all material requirements of our license, the interpretation and application of the technical standards used to measure these requirements, including the requirements regarding population coverage and minimum quality standards and other license provisions, may not be certain, and disagreements have arisen and may arise in the future between the Ministry of Communications and us. We have provided a bank guarantee to the Ministry of Communications in the amount of US\$10 million to guarantee our performance under our license. If we are found to be in material breach of our license, the guarantee may be forfeited and our license may be revoked. In addition, the Ministry of Communications is authorized to levy significant fines on us for breaches of our license which could have a material adverse effect on our financial condition or results of operations.



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 adversely affected by future regulatory developments in these areas.

The Ministry of Communications has lowered mandated call interconnect tariffs and SMS interconnect tariffs from the beginning of 2005 to March 2008. Although we have implemented cost-cutting measures as well as price increases and repackaging of our tariff plans in response to these tariff reductions, the regulatory changes imposing interconnect tariff reductions negatively impacted our revenues and profits.

Interconnect tariffs – further possible regulatory developments. In September 2009, the Ministry of Communications began examining interconnect tariffs for completing a call or transferring SMSs on the cellular network and requested that all cellular operators provide them with their network costs. For this purpose the Ministry of Communications hired an external consulting firm and is expected to publish a hearing regarding this matter in the next coming months. As a result, the Ministry of Communications may further reduce these tariffs, which may adversely affect our revenues and profits. In addition, the Ministry of Communications has indicated that it intends to start implementing a process to unify rates for calls terminating both on and off an operator's network, which may limit or eliminate our ability to pass on to our customers the charges we bear when our customers' calls must be transmitted into the network of another telecommunications services provider in order to reach the intended party. Preliminary hearings with cellular operators in Israel on this matter commenced in August 2005, but they have been suspended and might be resumed in the future. This change in regulations, if implemented, could adversely affect our revenues and profits.

SMS tariffs – further possible regulatory developments. 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 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.

Our mobile telephone license imposes certain obligations on our shareholders and restrictions on who can own our shares. Ensuring compliance with these obligations and restrictions may be outside our control, but if the obligations or restrictions are not respected by our shareholders, we could lose our license.

As with other companies engaged in the telecommunications business in Israel, our license requires that a minimum economic and voting interest in, and other defined means of control of, our company be held by Israeli citizens and residents or entities under their control. If this requirement were not complied with, we could be found to be in breach of our license, even though ensuring compliance with this restriction may be outside our control.

The Ministry of Communications amended our license effective April 14, 2005, reducing the required holdings by Israeli citizens and residents from 20% to 5%, which must be held by our founding shareholders who are Israeli entities or their approved substitutes. The amendment also requires that these shareholders appoint at least 10% of our Board of Directors. In 2006, our founding Israeli shareholders sold substantially all of their shares in the Company to Israeli institutional investors, who are approved substitutes. Since then, there were additional share sales to Israeli institutional investors that were approved as substitutes by the Ministry of Communications. Some of these shares sales were to Suny Electronics Ltd. ("Suny"). See "Item 7A. Major Shareholders – Significant Changes in Holdings of Major Shareholders During the Past Three Years". If our shareholders do not respect these conditions, we may be found to be in violation of our license.



In addition, according to our license, no transfer or acquisition of 10% or more of any of such means of control, or the acquisition of control of our company, may be made without the consent of the Ministry of Communications. Our license also restricts cross-ownership and cross-control among competing mobile telephone operators, including the ownership of 5% or more of the means of control of both our company and a competing operator, without the consent of the Ministry of Communications, which may limit certain persons from acquiring our shares. Shareholdings in breach of these limits relating to transfers or acquisitions of means of control or control of Partner could result in two consequences. First, the shares that are in excess of the limits will be converted into "dormant" shares, with no rights other than the right to receive dividends or other distributions to shareholders, and to participate in rights offerings until such time as the consent of the Ministry of Communications has been obtained. Second, the breach of the limits could result in the revocation of our license.

The Ministry of Communications has recently amended the licenses of all the cellular telecommunication companies, including the Company's license. We have not yet formed a final opinion as to the implications of the amendment.

After conducting a lengthy hearing process, the Ministry of Communications amended the conditions of the licenses of all the cellular telecommunication companies in Israel, whereby as of November 1, 2009, cellular telecommunication operators are prohibited from linking the sale of handsets to the provision of various benefits regarding cellular services, including air time. This amendment to the license also allows subscribers that purchased their handsets from one cellular telecommunication operator, or from another handset supplier, to benefit from the same advantages as are offered to subscribers of a different cellular telecommunications operator who purchased their handsets from that other operator. We are currently in the process of examining the implications of this amendment to our license on our business and whether our business and results of operations could be materially adversely affected.

#### RISKS RELATING TO OUR BUSINESS OPERATIONS

Actual and alleged health risks related to network sites and the use of mobile telecommunications devices, including handsets, could have a material adverse effect on our business, operations and financial condition.

A number of studies have been conducted to examine the health effects of wireless phone use and network sites, and some of these studies have been construed as indicating that radiation from wireless phone use causes adverse health effects. Media reports have suggested that radio frequency emissions from network sites, wireless handsets and other mobile telecommunication devices may raise various health concerns. While, to the best of our knowledge, the handsets that we market comply with the applicable laws that relate to acceptable Specific Absorption Rate ("SAR") levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers' approvals refer to a prototype handset, and not for each and every handset, we have no information as to the actual level of SAR of the handsets along the lifecycle of the handsets, including in the case of repaired handsets. See also "Item 4. Information on the Company-B. Business Overview-Regulation-Other Approvals". Furthermore, our network sites comply with the International Council on Non-Ionizing Radiation Protection standard, a part of the World Health Organization, which has been adopted by the Israeli Ministry of Environmental Protection.

Several lawsuits have been filed against operators and other participants in the wireless industry alleging adverse health effects and other claims relating to radio frequency transmissions to and from sites, handsets and other mobile telecommunications devices, including one lawsuit against us and two other cellular telecommunication companies with respect to cell sites allegedly causing environmental damage. See "Item 8A - Financial Information - Legal and Administrative Proceedings". We may be subject to additional future litigation relating to these health concerns.

In February 2009, a municipal court ruled against one of our competitors, stating that there is no need for the standard burden of proof to prove damages from a cellular network site, and that under certain circumstances it would be

sufficient to prove the possibility of damage in order to transfer the burden of proof to the cellular companies. To the best of our knowledge, the defendant appealed the ruling and the ruling was dismissed as part of a settlement between the parties. Although we were not a party to this proceeding, such rulings could have an adverse affect on our ability to contend with claims of health damages as a result of the erection of network sites.

The Ministry of Health published in July 2008 recommendations regarding precautionary measures when using cellular handsets. The Ministry of Health indicated that although the findings of an international study on whether cellular phone usage increases the risk of developing certain tumors were not yet finalized, partial results of several of the studies were published, and while these studies did not demonstrate a connection between cellular phone exposure and tumor growth, a relationship between prolonged cellular phone usage and tumor development was observed in some of these studies. These studies, as well as the precautionary recommendations published by the Ministry of Health, have increased concerns of the Israeli public.

The perception of increased health risks related to network sites may cause us increased difficulty in obtaining leases for new network site locations or renewing leases for existing locations or otherwise in installing mobile telecommunication devices. If it is ever determined that health risks existed or that there was a deviation from radiation standards which would result in a health risk from sites, other telecommunication devices or handsets, this would have a material adverse effect on our business, operations and financial condition, including through exposure to potential liability, a reduction in subscribers and reduced usage per subscriber. Furthermore, we do not expect to be able to obtain insurance with respect to such liability.

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.

Competition with existing cellular service providers. We compete primarily with Cellcom, Pelephone and MIRS, the other cellular telephone network operators in Israel.

Cellcom is an Israeli corporation that is part of the IDB group, a large Israeli holding company which is also active in diversified businesses with holdings in subsidiary companies that operate in many different markets in Israel. Cellcom is also active in the Israeli communications market providing mobile telephone services, high speed internet, and wireline and land-line communications services. Due to the IDB group's strong position in Israel, we believe that in some cases we have experienced and may further experience the loss of business subscribers who are affiliates of the IDB group or do business with the IDB group, and who transfer their cellular business to Cellcom.

Pelephone, which is a wholly owned subsidiary of Bezeq, was initially a non-GSM operator, has used CDMA-1x real time technology ("RTT"), and is an Evolution Data Optimized ("EVDO") operator. All three operators have reached the same level of technology which has increased competition. The introduction of additional UMTS/HSPA technology may further increase competition in the mobile market, thereby affecting our churn rates, customer retention costs and roaming revenues.

In June 2009, Motorola announced its intention to sell MIRS, its wholly-owned subsidiary, that holds a general license to operate as a mobile telephone operator in Israel. According to media reports and publications, a company controlled by Patrick Drahi, who is also the principal shareholder of HOT Cable Communication Systems Ltd ("HOT"), the cable television operator in Israel, entered into an agreement to acquire all of Motorola's holdings in MIRS, which would allow the purchaser to assign all of its rights and obligations under the agreement to HOT. HOT's two main areas of activity are cable multi channel television broadcast and domestic land line telecommunication services. This transaction would contribute to the creation of another telecommunications conglomerate in Israel, which would increase competition in the market.

Because of the ease of switching between mobile operators, particularly following the introduction of the number portability plan, we have already faced and may continue to face an increase in our churn rate, although our annual churn rate has slightly decreased from 17.8% in 2008 to 17.7% in 2009. Any increase in our churn rate may require

us to increase our customer retention costs in order to retain our subscribers.



We are also subject to competition from other service providers. These service providers use alternative technologies that bypass the existing method of providing roaming services.

Ministry studies to introduce new competitors and enhance competition. In 2007, the Ministry of Communications engaged NERA, an international consulting firm, to review the level of competition in Israel's mobile market and to review whether to allow the entry of new operators, including MVNO operators, into the Israeli telecommunications market. Following the review conducted by NERA, the Ministry of Communications has been conducting hearings regarding a draft MVNO license and regulations and has recently published a draft license and regulations. See above "We may be required in the future to offer access to our network infrastructure to other operators, which may enable new competitors, such as MVNOs, to enter the market, reduce our ability to provide quality services to our subscribers and negatively affect our operating results." In addition, the Ministry of Communications has announced its intention to increase competition in the cellular market by providing WiMAX licenses and/or other licenses for the use of our cellular network by other telecommunications services providers using competing or complementary technologies, such as VoBoC.

In March 2008, the Grunau Committee, a public commission appointed in 2006 by the Ministry of Communications to review various issues in the Israeli communications market, published its recommendations which included: to accelerate the procedures necessary to allow the entry of MVNOs and additional infrastructure-based operators to the mobile market; to publish a WiMAX frequencies tender for mobile use; to examine interconnect fees and further revise them accordingly, during 2009; to regulate charges for cellular-originated international calls and, subject to such regulation, to allow cellular operators to enter the international long distance market; and to prohibit a linkage between a cellular services transaction and a handset purchase transaction. The commission further recommended the unbundling of Bezeq's network (the incumbent land-line operator in Israel), to be followed by reducing some of the restrictions with respect to offering integrated packages of services currently imposed on Bezeq and its subsidiaries. In August 2008, the Ministry of Communications adopted most of the recommendations of the Grunau Committee. In addition, the Ministry of Communications conducted a hearing in order to enable Bezeq's subsidiaries to market, together with Bezeq, bundled services that include both Bezeq's services and the subsidiaries' services so that both Bezeq as well as its subsidiaries can offer a wide variety of services, such as land-line telephony, mobile telephone, internet and multi channel television, to the public and allow the consumer to acquire all services in one package from a single vendor.

See "Item 4B. Business Overview-Regulation-Regulatory Developments".

If the Ministry of Communications decides to adopt other measures considered in the studies described above, competitive pressures may increase, which could adversely affect our business and results of operations.

WiMAX licenses. In February 2009, the Ministry of Communications published a policy regarding the allocation of frequencies and establishing a broadband wireless access network using WiMAX technology. The Ministry of Communications also stated that it intended to promote competition in the cellular market by potentially granting preferences to existing telecommunications services providers in this regard. The Ministry of Communications decided that existing cellular operators would not be allowed to participate in the allocation of the 2.5 GHz WiMAX frequencies, that would mainly be available to new participants in the telecommunications market. Cellular WiMAX is a competitive technology to HSDPA and LTE, which are the next generation of GSM technologies. Granting WiMAX licenses to new operators or to any of our competitors and not to us might offer them a competitive advantage and adversely affect our business. Furthermore, if the Ministry of Communications allocates to new WiMAX operators frequencies which we may need for our next GSM generation technology, this may impair our ability to compete. If such frequencies are not available to us in the future, it may harm our ability to migrate to the next generation of GSM technology, such as LTE.

The Ministry of Communications has granted a special license to a few of the new land-line operators to conduct a marketing experiment that will examine the provision of domestic telephony services using VoBoC technology.

Land-line competition. To the extent that land-line telephones are used instead of mobile telephones, we compete with Bezeq, the incumbent land-line operator in Israel, HOT, the cable television operator in Israel, and other land-line operators. Bezeq owns 100% of the shares of Pelephone and Bezeq International, which, as mentioned above, may enable Pelephone and Bezeq to offer bundled services of land-line, mobile telephone and other telecommunication services, subject to regulatory approval.

New Business Initiatives. As of the beginning of 2009, we operate three additional non-cellular business lines: Voice over Broadband (“VoB”) telephony services, internet service provider (“ISP”) services and Web VOD (video on demand). 2009 was the first full year that we operated these services. As expected in new markets, we face new competitors and competition patterns. We may be at a competitive disadvantage relative to operators who may be able to offer bundled services of land-line, mobile telephone, television and other communications services, using their wholly- or partially-owned infrastructure. As a result of these market conditions, we may not meet our business plan for the new lines of business. We may face fierce competition in this area in a manner that will not enable us to establish substantial presence in these businesses. Hot-Net Limited Partnership (“Hot Net”), a wholly owned partnership of HOT, has applied to the Ministry of Communications for a license to provide ISP services in Israel. The Ministry of Communications has issued a hearing to consider allowing HOT to offer services bundles, including ISP services, to be provided by Hot Net. We are not able to predict the regulatory conditions, if any, that the Ministry of Communications will impose on HOT and are therefore unable to assess the impact that this development may have on our ISP business.

Several new operators, including 012 smile communications ltd (“012 smile”), Netvision 013 Barak (“Netvision”) and Xfone Communication Ltd (“Xfone”) entered the land-line market in 2007 and 2008 based on VOB services using the infrastructure of Bezeq and HOT to access customers and to provide them with land-line telephony service. Other VoB operators may enter the mobile telecommunications services market in the future and increase the level of competition we face. As a result of these developments in the competitive environment, we may experience increased costs to attract and retain subscribers, and further pressure on tariffs.

Telecommunications industry consolidation. The telecommunications market might face consolidation in a manner which potentially decreases our competitive position. Various groups in the Israeli telecommunications market might acquire or build new complementary lines of business in order to provide a full range of telecommunications services packages. We might face difficulties in obtaining required services and product components, such as last mile access to the customers’ premises, that are essential to compete with our competitors’ bundled offerings. There are two major groups in the Israeli telecommunications market that currently operate a wide range of telecommunications services, including mobile, fixed-line, data transmission and internet. One of the groups also offers multichannel pay-TV services and therefore already possesses a full range of telecommunications businesses within the group. Subject to legal restrictions, the group might be able in the future to offer full packages of bundled services. Such developments could substantially affect our position in the Israeli telecommunications market, in particular, by attracting a broad range of telecommunications subscribers to one or two full-service telecommunications groups, as well as by permitting such a group or groups to apply substantial pressure on market prices for selected sectors. If such developments were to occur, our business and results of operations could be materially adversely affected.

Our subscriber growth rate, and consequently our revenue growth rate, has continued to slow, because Israel’s mobile telephone services market is highly penetrated, making it more difficult for us to obtain new subscribers and retain existing subscribers.

Although Israel’s mobile telephone services market has experienced substantial growth, and we have experienced substantial subscriber growth since our commercial launch in 1999, the Israeli market for mobile telephone services is now highly penetrated, and the growth of the overall Israeli market and of our own subscriber base has been slower than in the past. According to a recent report issued by a research company, at the end of the fourth quarter of 2009,

Israel's mobile telephone market penetration is estimated to be approximately 127%. This includes dormant subscribers (up to six months) as well as subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers as well as other service provider subscribers that also subscribe to another cellular network. While in the past our revenue growth has largely resulted from growth in the overall market, our future revenues will depend significantly on our ability to retain existing subscribers and to attract subscribers from the other mobile telephone network operators as well as on our ability to generate higher revenues from existing subscribers.

In the event critical elements of our mobile network are damaged or rendered non-operational, we may not be able to replace them or return them to service quickly and, as a result, we may not be able to provide telecommunications services to a substantial portion of our subscribers for an indeterminate period of time.

Some elements of our mobile network perform critical functions for broad sectors of our network operation, such as switching and data platforms. If such a critical element were damaged due to fire, water, earthquake or some other natural or man-made cause, an entire sector of our network coverage may be rendered non-functioning, which means that we would not be able to provide telecommunications services to a substantial portion of our subscribers. Although we have prepared disaster recovery plans, it is not possible to determine in advance how effective such plans will be, and in particular how quickly we will be able to restore service. In the event we are unable to provide telecommunications services to a substantial portion of our subscribers for an extended period of time, our business and short- and long-term results of operations will be materially negatively affected.

Our purchase commitments pursuant to our non-exclusive agreement with Apple for the purchase and resale of iPhone handsets in Israel may adversely affect our liquidity and financial results.

In June 2009, we entered into a non-exclusive agreement with Apple Sales International for the purchase and resale of iPhone handsets in Israel. Pursuant to the agreement, we agreed to purchase a minimum quantity of iPhone handsets per year, for a period of three years. These purchases will represent a significant portion of our expected handset purchases over that period. If we fail to sell a substantial number of these iPhone handsets on the terms that we intended to, we may be required to write-down our inventory, which would have an adverse impact on our earnings. We are currently required to subsidize a substantial portion of the sales price of each iPhone handset that we sell. We expect to fund these subsidies with cash generated from operations, which will increase our expenses and decrease our available cash. The launch of the iPhone has increased our working capital requirements due to the build-up of handset inventory and since we expect to recover the purchase price of each iPhone handset over the customer's contract term rather than at the commencement of the contract. As a result, our liquidity may be adversely affected.

Two of our main competitors have also announced that they have entered into agreements with Apple for the purchase and resale of iPhone handsets in Israel.

We could be subject to legal claims due to the inability of our information systems to fully support our calling plans.

In order to attract and retain the maximum number of subscribers in our highly competitive market, we design specific calling plans to suit the preferences of various subscriber groups. We require sophisticated information systems to record accurately subscriber usage pursuant to the particular terms of each subscriber's plan, as well as accurate database management and operation of a very large number of calling plans. From time to time, we have detected some discrepancies between certain calling plans and the information processed by our internal information systems, such as applying an incorrect rebate or applying an incorrect tariff to a service, resulting in a higher charge. We have invested substantial resources to refine and improve our information and control systems and ensure that our calling plans are appropriately processed by our information systems. We have also taken steps to remedy the identified discrepancies. Despite our substantial investments, we may experience discrepancies in the future due to the multiplicity of our plans and the scope of the processing tasks. Further, while we invest substantial efforts in monitoring our employees and third-party distributors and dealers that market our services, it is possible that some of our employees, distributors or dealers may offer terms and make (or fail to make) representations to existing and prospective subscribers that do not fully conform to applicable law, our license or the terms of our calling plans. As a result of these discrepancies, we may be subject to subscribers' claims, including class action claims, and substantial sanctions for breach of our license that may materially adversely affect our results of operations.



We are exposed to, and currently engaged in, a variety of legal proceedings, including several potential class action lawsuits related primarily to our network infrastructure and consumer claims.

In addition to a number of legal and administrative proceedings arising in the ordinary course of our business, we have been named as defendants in a number of civil and criminal proceedings related to our network infrastructure, which may result in civil liabilities or criminal penalties against us or our officers and directors, and consumer claims regarding, for example, our tariff plans and billing methods, which may result in significant monetary damages and civil penalties. The costs that may result from these lawsuits are only accrued when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of legal counsel and on the Company's estimate of the probable settlements amount that are expected to be incurred, if such a settlement will be agreed by both parties.

See "Item 8. Financial Information – Legal and Administrative Proceedings". Plaintiffs in some of these proceedings are seeking certification as class actions.

We are subject to the risk of intellectual property rights claims against us, including in relation to innovations we develop ourselves and the right to use content, including music content, which we have purchased from third parties who present themselves as the owners of the intellectual property rights included in the content, or as the representatives of the owners of the intellectual property, when in fact it may not be the case. These claims may require us to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages or may be required to obtain licenses for the infringing product or service. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be forced to stop using or selling the products and services, which could adversely affect our ability to provide certain services and products.

The telecommunications industry is subject to rapid and significant changes in technology and industry structure which could reduce demand for our services.

We may face competition from existing or future technologies, including land-line and cordless technologies, satellite-based personal communications services, private and shared radio networks, broadband wireless access services, Voice over IP ("VoIP") services, wireless fidelity ("Wi-Fi") technologies, WiMAX, VoBoC, and other communications technologies that have the technical capability to handle mobile telephone calls and to interconnect with the land-line telephone network and internet networks. The effect of emerging and future technological changes, including the convergence of technologies and the introduction of new competitors with the ability to provide mobile telecommunication services to customers while mobile, on the viability or competitiveness of our network cannot be accurately predicted. The technologies we employ or intend to employ may become obsolete or subject to competition from new technologies in the future, and competition from new technologies in the future may have a material adverse impact on our business and results of operations.

Moreover, global equipment vendors and internet providers have expressed their interest in penetrating the mobile industry and strengthening their position along the value chain. They intend to provide direct access to the end-user to a wide variety of applications and services. Such a change might adversely change our competitive position and increase the dominance of those new providers at the expense of cellular service providers. Changes in the industry value chain structure might result in an increase in our expenses as well as a decrease in our revenue generated from those services.

Unanticipated growth in subscriber demand for cellular data may require us to terminate or modify certain products or services and could require us to make unplanned investments.

As part of our strategy of evolving into a diversified multi-service communications and media service provider, we have developed services providing, and successfully encouraged subscriber demand for, Internet access and content and data consumption using 3G cellular phones, data cards and ISP. However, in the event subscriber demand for data increases more rapidly than expected, we may need to develop strategies to avoid data traffic overloading the capacity of the network. Such strategies may include terminating or modifying certain products or services or undertaking significant unanticipated investments. In addition, regulatory developments seeking to ensure “fair usage” of the Internet for all persons may impose changes on the terms and conditions of certain of our current or future services. In the event of substantial, rapid growth in data consumption by our subscribers and the public generally, we may be obliged to adjust our product offering or undertake significant investments, both of which could have a material adverse effect on our financial condition or results of operations.



Operating a cellular telecommunications network involves the inherent risk of fraudulent activities and potential abuse of our services, which may cause loss of revenues and non-recoverable expenses.

There is an inherent risk of potential abuse by individuals, groups, businesses or other organizations that use our cellular telecommunications services and avoid paying for them. The effects of such fraudulent activities may be, among others, a loss of revenue and out-of-pocket expenses which we will have to pay to third parties in connection with those services, such as interconnect fees, payments to international operators or to operators overseas and payments to content providers. Such payments may be non-recoverable. Although we are taking measures in order to prevent fraudulent activities, we have suffered from these activities in the past, and we may suffer from them in the future. The financial impact of fraudulent activities that have occurred in the past has not been material. However, we cannot assure you that should fraudulent activities occur in the future, they will not materially affect our financial condition and results of operations.

We are dependent upon our ability to interconnect with other telecommunications carriers. We also depend on Bezeq and other suppliers for land-line transmission services. The failure of these carriers to provide these services on a consistent basis could have a material adverse effect on us.

Our ability to provide commercially viable cellular telephone services depends upon our ability to interconnect with the telecommunications networks of existing and future land-line, cellular telephone and international operators in Israel in order to complete calls between our customers and parties on the land-line or other cellular telephone networks. All land-line, cellular telephone and international operators in Israel are legally required to provide interconnection to, and not to discriminate against, any other licensed telecommunications operator in Israel. We have signed interconnect agreements with cellular telephone network operators in Israel, and with Israeli international operators, and in July 2008, we signed an agreement with Bezeq for the provision of land-line transmission services which replaces an earlier transmission agreement. As regards interconnection to Bezeq's land-line network, we are currently operating without any formal agreements with Bezeq, and our day-to-day arrangements with Bezeq substantially conform to a draft interconnect agreement negotiated with Bezeq. In connection with the introduction of the new services that the Company began offering in 2009, we also depend on Bezeq's and HOT's land-line network in order to be able to provide those services. We also have an agreement with the international long-distance provider "Golden Lines" (012), to carry all of our roaming related traffic. The agreement provides that Partner will route calls to its customers that are roaming abroad via Golden Lines (012). In addition, Partner will route outgoing international calls from foreign roamers hosted on Partner's network in Israel. Under the agreement, all international signaling traffic related to Partner's roamers abroad and foreign roamers hosted on Partner's network while visiting Israel will be also be routed through Golden Lines (012).

We have no control over the quality and timing of the investment and maintenance activities that are necessary for these entities to provide us with interconnection to their respective telecommunications networks. The failure of these or other telecommunications providers to provide reliable interconnections to us on a consistent basis could have a material adverse effect on our business, financial condition or results of operations. Disruptions, stoppages, strikes and slowdowns experienced by them may significantly affect our ability to provide cellular telephone services. The failure by our suppliers to provide reliable transmission services to us on a consistent basis could have a material adverse effect on our business, financial condition or results of operations.

Our right to use the "orange" brand is royalty free only until 2013. After that time, we are likely to be required to pay royalty payments should we decide to retain the orange brand. The amount of the royalties may be significant.

Our marketing strategy currently relies on the use of the international orange brand. We can operate our business under the orange brand only if we have the right to use it under the brand license agreement. Under this license agreement, we are required to comply with the orange brand guidelines. We have the right to use the orange brand as long as we are able and legally eligible under the laws of Israel to offer telecommunications services to the public in Israel. Our right to use the orange brand is royalty-free until 2013. Beforehand, during 2012, the parties will negotiate the amount of royalty payments, which could be significant, if we decide to retain the orange brand. If the parties do not agree on the amount of royalty payments, the determination of royalty payments will be referred to an independent expert. The brand license agreement may be terminated by mutual agreement, or at our discretion, or by Orange if a court determines that we have materially misused the brand. Our decision to continue to operate under the orange brand will require us to weigh the amount of these royalty payments against the costs and potential risks associated with building a new brand for our services, among other factors. If we retain the orange brand and are required to pay significant royalty payments, our results of operations may be adversely affected. If we decide not to retain the orange brand we cannot assure you that we will be able to successfully build a new brand for our services in a timely manner.

We depend on a limited number of suppliers for our network equipment. Our results of operations could be adversely affected if our suppliers fail to provide us with adequate supplies of network equipment or maintenance support on a timely basis.

We purchased our network equipment, such as switching equipment, base station controllers and base transceiver stations and network software, from Ericsson and Nokia. As of January 2008, we purchase all our UMTS network equipment from Ericsson, and are therefore materially dependent on Ericsson as our sole vendor for our UMTS network. Although our network utilizes standard equipment that is produced by several suppliers, we cannot be certain that we will be able to obtain equipment from one or more alternative suppliers on a timely basis in the event that any of our suppliers is unable to satisfy our equipment requirements. Our results of operations could be adversely affected if Ericsson or one of our other suppliers fails to provide us with adequate supplies of equipment, as well as ongoing maintenance support, in a timely manner. In addition, our results of operations could be adversely affected if the price of network equipment rises significantly. In our experience, suppliers from time to time extend delivery times, limit supplies and increase the prices of supplies due to their supply limitations and other factors.

Our business may be impacted by shekel exchange rate fluctuations and inflation.

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, in recent years, approximately one quarter of our operating expenses (excluding depreciation and amortization), including a substantial majority of our equipment purchases, were linked to non-shekel currencies, mainly the US dollar. These expenses related principally to the acquisition of handsets, where the price paid by us is based mainly on US dollars. In addition, a substantial majority of our capital expenditures (including with respect to our 3G networks) are incurred in, or linked to, non-shekel currencies, mainly US dollars. Thus, although the relative decline in value of the US dollar against the shekel during 2007 and 2008 helped offset increases in our financial and operating expenses, the decline in the value of the shekel against the dollar (or other foreign currencies) increased the shekel cost of our non-shekel denominated or linked expenses and capital expenditures. A continued decline in the value of the shekel against the dollar (or other foreign currencies) could have a further adverse impact on our results, which may be material. Material changes in exchange rates may cause the amounts that we must invest to increase materially in shekel terms.

We hedge a portion of our foreign currency commitments. As of December 31, 2009, the notional amounts of our foreign currency derivatives were approximately US\$30 million. Our derivative transactions are mainly designed to

hedge short-term cash flows related to anticipated payments in respect of purchases of handsets and capital expenditures in foreign currency.

Our bank credit facility borrowings and repayments of principal and interest on our Notes due 2012 and Notes due 2016 are currently in shekels, most of which are linked to the consumer price index ("CPI"). We may not be permitted to raise our tariffs pursuant to our license in a manner that would fully compensate for any increase in the CPI. Therefore, an increase in the rate of inflation may also have a material adverse impact upon us by increasing our financial expenses without an offsetting increase in revenue. We enter into derivative transactions in order to protect ourselves from an increase in the CPI. As of December 31, 2009, the notional amounts of our CPI derivatives were approximately NIS 430 million (or approximately 20% of our CPI exposure at that date).

See “Item 11. Quantitative and Qualitative Disclosures About Market Risk” for more information regarding the Company’s exposure to exchange rate fluctuations and inflation.

If we are not able to successfully integrate new businesses or technologies, our business, brand and results of operations may be harmed.

In order to expand and improve our offering of services to our subscribers, attract new subscribers and secure new sources of revenue, we may acquire or develop complementary businesses and technologies, some of which we launched in January 2009. The identification, acquisition and integration of new businesses or technologies may require substantial management resources, cause us to incur unforeseen costs and disrupt our ongoing business. Until now we have not engaged in significant acquisitions. If we are not able to successfully integrate any such new businesses quickly and efficiently with our existing business, our business, brand, results of operations, financial condition or cash flows may be harmed.

We may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which may have a material adverse effect on our operating results and our share price.

Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 relating to the evaluation of our internal control over financial reporting have resulted in increased general and administrative expenses and required substantial management time and attention. We expect these efforts to require a continued commitment of resources. If we fail to maintain the adequacy of our internal controls, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting. Although our management has concluded that our internal control over financial reporting was effective as of December 31, 2009, we may identify material weaknesses or other disclosable conditions in our future control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and significant effort and expense, and could have a material adverse effect on our operating results and on the market price of our ordinary shares.

The political and military conditions in Israel may adversely affect our financial condition and results of operations.

The political and military conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners and political instability within Israel or its neighboring countries are likely to cause our revenues to fall and harm our business. The establishment in 2006 of a government in the Palestinian Authority by representatives of the Hamas militant group has created additional unrest and uncertainty in the region. Repeated attacks by Hamas including missile strikes against Israel, led to an armed conflict between Israel and the Hamas in December 2008 and January 2009. Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on our business, financial condition or results of operations. In particular, in recent conflicts, missile attacks have occurred on civilian areas, which could cause substantial damage to our infrastructure network, reducing our ability to continue serving our customers as well as our overall network capacity.

Some of our directors, officers and employees are currently obligated to perform annual reserve duty. Additionally, all reservists are subject to being called to active duty at any time under emergency circumstances. We cannot assess the full impact of these requirements on our workforce and business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of these obligations.

During an emergency, including a major communications crisis in Israel’s national communications network, a natural disaster, or a special security situation in Israel, control of our network may be assumed by a lawfully authorized

person in order to protect the security of the State of Israel or to ensure the provision of necessary services to the public. During such circumstances, the government also has the right to withdraw temporarily some of the spectrum granted to us. We cannot assure you that we are fully prepared for every disaster or emergency situation, or that we could recover fully from any such occurrence. This may materially harm our ability to provide services to our subscribers in such emergency circumstances, and would thus have a negative impact on our revenue and results of operations.

Our level of indebtedness could adversely affect our business and our liquidity.

At December 31, 2009, our total long-term indebtedness was NIS 2,433 million net of deferred charges including capital lease obligations and current maturities. In connection with the distribution of a special dividend, we anticipate increasing our total indebtedness by NIS 1.1 billion in March 2010 (see “Item 5D. Trend Information – Recent Developments”). Our credit facilities, the indentures governing the Notes and our loan agreement currently permit us to incur additional indebtedness, subject to some limitations.

Our substantial indebtedness could adversely affect our financial health by, among other things:

- increasing our vulnerability to adverse economic, industry or business conditions or increases in the CPI, particularly because a substantial portion of our borrowings is linked to the CPI;
- limiting our flexibility in planning for, or reacting to, changes in our industry and business as well as the economy generally;
- requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, which reduces the funds available for dividend distributions and future business development; and
- limiting our ability to obtain the additional financing we need to operate, develop and expand our business.

If our future cash flows are not sufficient to allow us to pay principal and interest on our debt, we might not be able to satisfy our financial and other covenants and may be required to refinance all or part of our existing debt, use existing cash balances or issue additional equity or other securities. We cannot be sure that we will be able to do so on commercially reasonable terms, if at all.

We may not be able to fulfill our dividend policy in the future. If we implement our current dividend policy, we might reduce our future cash reserves, which may require us to borrow additional money.

We first distributed dividends in 2005, and we have distributed dividends in each subsequent year. For the year 2009, the Company distributed dividends and declared a final dividend on March 16, 2010 (with respect to the fourth quarter of 2009), which in the aggregate amounted to approximately NIS 1,059 million (US\$ 281 million), or NIS 6.86 per share, representing a payout ratio of approximately 93% of our annual net income for the year. We have also announced a special dividend of NIS 1.4 billion to be distributed on March 18, 2010, which will result in a reduction of our equity by an equal amount and be financed by debt (see “Item 5D. Trend Information – Recent Developments”).

Under Israeli law, the payment of dividends is generally made from accumulated retained earnings or, retained earnings accrued over a period of the last two years (after deducting prior dividends to the extent not already deducted from retained earnings), and in either case, provided there is no reasonable concern that the dividend will prevent the company from satisfying current or foreseeable obligations as they come due.

A dividend distribution that does not meet the above- mentioned conditions would be allowed only after receiving court approval and after providing debtors with the opportunity to present to the court any opposition to the special dividend distribution.

There is no assurance that we will be able to continue paying dividends or increase our payment of dividends in the future, nor is there any assurance that our Board of Directors will not change our dividend policy in the future.



The special dividend distribution and our current dividend policy, if continued to be implemented, will significantly reduce our future cash reserves and may adversely affect our ability to fund unexpected capital expenditures. As a result, we may be required to borrow additional money, which may not be possible on attractive terms or at all. See also the following risk factor regarding the risks related to future borrowing created by the current economic environment.

If we are unable to fulfill our dividend policy, or pay dividends at levels anticipated by investors in our shares, the market price of our shares may be negatively affected and the value of our investors' investment may be reduced.

Our business results may be affected by an economic downturn.

Much of our revenues are usage dependant. An economic downturn may affect our results through an adverse impact in roaming activity, and may also have a negative impact on average monthly usage per subscriber ("MOU") and average monthly revenue per subscriber ("ARPU"). If the current economic downturn continues, usage of any of our services may decrease and we may not be able to compensate for lost revenues. This may have a material adverse effect on our results of operations, financial condition or prospects. The recession may also result in a deterioration in the ability of our customers to pay amounts owed to us. Failure of one or more of our larger business customers to pay the amount owed to us may materially increase our bad debts and may have a material adverse effect on our results of operations and financial condition. Furthermore, the downturn may adversely affect third parties we rely upon in the provision of our services, including interconnecting telecommunication providers, roaming partners and services and equipment providers. If our service or equipment providers fail to provide reliable and consistent services and/or equipment to us on the requisite standards of quality and on a timely basis, our ability to provide services to our subscribers may be reduced in scope and/or in quality, until and inasmuch as an alternative provider can be found, and consequently our license may be at risk of revocation for failure to satisfy the required service standards. An alternative provider and/or solution may involve additional expenses and/or investments on our part and/or may involve terms that are less favorable to us, including reduced revenues. In addition, if any damage is caused to us, or if we are found liable for damages caused to third parties by such service or equipment providers and such providers are unable to indemnify us for such damages, we may have to bear the cost of such damages, which may be substantial, and such outcome may adversely affect our financial condition.

Particularly in light of current global economic conditions, there can be no assurance that we will be able to obtain additional bank loans, issue new corporate notes or securitize accounts receivable on acceptable terms or at all, which could have a material adverse effect on our cash flow and financial condition.

#### RISKS RELATED TO OUR PRINCIPAL SHAREHOLDER

46.23% of our shares and voting rights are indirectly controlled by a single shareholder.

On October 28, 2009, Advent Investments Pte Ltd. ("Advent"), a wholly-owned subsidiary of Hutchison Telecommunications International Limited ("Hutchison Telecom"), sold its entire controlling interest in the Company to Scailex Corporation Ltd. ("Scailex"). Scailex, an Israeli corporation listed on the Tel Aviv Stock Exchange, is a majority owned subsidiary of Suny, which is also an Israeli corporation listed on the Tel Aviv Stock Exchange and indirectly controlled by Mr. Ilan Ben-Dov. In separate transactions, Suny acquired 1.41% of our issued and outstanding shares and total voting rights. As a result of his indirect control of Scailex (which held 44.82% of our issued and outstanding shares and voting rights as of January 31, 2010) and Suny, Mr. Ilan Ben-Dov indirectly controlled 46.23% of our issued and outstanding shares and total voting rights as of January 31, 2010.

As our largest shareholder, Scailex, who is also one of our main handset suppliers, has the ability to influence our business through its ability to virtually control all actions that require majority approval by the shareholders and



through its representatives on our board of directors. Scailex is not obligated, however, to provide us with financial support or to exercise its rights as a shareholder in our best interests or in the best interests of our minority shareholders and noteholders, and it may engage in activities that conflict with such interests. If the interests of Scailex conflict with the interests of our other shareholders and noteholders, those shareholders and noteholders could be disadvantaged by the actions that this shareholder chooses to pursue. In addition, Scailex may cause our business to pursue strategic objectives that may conflict with the interests of our other shareholders and noteholders.

The change in principal shareholder could give rise to changes in our strategy, including our financial strategy and the level of debt coverage, which could have a significant impact on our results of operations and/or financial condition.

In addition, according to press releases issued by Scailex, Scailex entered into an agreement with Bank Leumi Ltd ("Bank Leumi") under which it sold 7,677,037 Company shares, representing 4.99% of the Company's issued and outstanding shares, to Leumi Partners Ltd, a wholly owned subsidiary of Bank Leumi, and undertook obligations which may have an influence on decisions taken by the Board of Directors or at shareholders' meetings, including the election of a representative of Bank Leumi to the Board of Directors. See "Item 7A. Major Shareholders - Agreement between Scailex and Bank Leumi Ltd".

We do not expect to continue to enjoy the benefits and support arising from our relationship with Hutchison Telecom and Hutchison Whampoa Limited following the sale by Hutchison Telecom of its entire controlling interest in the Company to Scailex.

Since April 2005, when Hutchison Telecom became our controlling shareholder, we have benefited from the knowledge and experience of Hutchison Telecom and Hutchison Whampoa Limited ("HWL") in terms of strategic advice, group purchasing and cost-sharing agreements which have allowed us to benefit from the combined purchasing power and resources of HWL group companies. We have also benefitted from their assistance in developing our business, as well as the recognition we have acquired in the industry as a result of their association with our company. We also participated in certain directors' and officers' liability insurance policies procured by Hutchison Telecom. Following the sale of Hutchison Telecom's controlling interest, we no longer have the support and benefits that we had derived from being part of the Hutchison Telecom/HWL groups, but we cannot at this time assess whether this will have a substantial negative effect on our business.

## ITEM 4. INFORMATION ON THE COMPANY

### 4A. History and Development of the Company

We were incorporated in Israel under the laws of the State of Israel on September 29, 1997, as Partner Communications Company Ltd. Our products and services are marketed under the orange brand. Our principal executive offices are located at 8 Amal Street, Afeq Industrial Park, Rosh Ha'ayin 48103, Israel (telephone: 972-54-7814-888). Our website address is [www.orange.co.il](http://www.orange.co.il). Information contained on our website does not constitute a part of this annual report. Our agent for service in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011.

Since our incorporation, we have achieved a number of important milestones:

- In April 1998, we received our license to establish and operate a cellular telephone network in Israel.
- ¶ In January 1999, we launched full commercial operations with approximately 88% population coverage and established a nationwide distribution.
- ¶ In October 1999, we completed our initial public offering of ordinary shares in the form of American Depositary Shares, and received net proceeds of approximately NIS 2,092 million, with the listing of our American Depositary Shares on NASDAQ and the London Stock Exchange. We used part of these net proceeds to repay approximately NIS 1,494 million in indebtedness to our principal shareholders, and the remainder to finance the continued development of our business.
- ¶ In August 2000, we completed an offering, registered under the US Securities Act of 1933, as amended, of \$175 million (approximately \$170.5 million after deducting commissions and offering expenses) in 13% unsecured senior subordinated notes due 2010.
- On March 31, 2001, we had over 1,000,000 subscribers.
- In July 2001, we registered our ordinary shares for trading on the Tel Aviv Stock Exchange.
- ¶ In December 2001, the Ministry of Communications awarded us two bands of spectrum: one band of GSM 1800 spectrum and one band of 2100 UMTS third generation spectrum.
- In June 2002, our license was extended until February 2022.
- In August 2003, we had over 2,000,000 subscribers.
- In December 2004, we commercially launched our 3G network.
- ¶ In March 2005, we completed a debt offering, raising NIS 2.0 billion in a public offering in Israel of notes due 2012.
- ¶ In April 2005, we repurchased approximately 33.3 million shares from our Israeli founding shareholders, representing approximately 18.1% of our outstanding shares immediately before the repurchase.
- In August 2005, we redeemed our outstanding \$175 million 13% unsecured senior subordinated notes.
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In the third quarter of 2005, our Board of Directors and shareholders approved the distribution of our first cash dividend, in the amount of NIS 0.57 per share, totaling approximately NIS 86.4 million.

In March 2006, we launched services based on the High Speed Downlink Packet Access (“HSDPA”) technology. HSDPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds. The HSDPA technology has already been deployed to support up to 21 Mbps on the downlink and 5.7 Mbps on the uplink.

In July 2006, we purchased Med-1 I.C.-1 (1999) Ltd.'s fiber-optic transmission business for approximately NIS 71 million (US\$16.8 million), in order to enable us to reduce our transmission costs as well as to provide our business customers with bundled services of transmission of data and voice and land-line services.

In January 2007, we were granted a domestic fixed license by the Ministry of Communications, and in February 2007 we were granted a network termination point license.

In December 2008 and January 2009, we launched three additional non-cellular business lines: Voice over Broadband ("VoB") telephony services, internet service provider ("ISP") services and Web VOD (video on demand). See "Item 4B. Business Overview – Services and Products – Value-Added Services".

On October 28, 2009, Scailex Corporation Ltd. became our principal shareholder through acquiring the entire interest in the Company of our previous controlling shareholder. As of January 31, 2010, Scailex held 44.82% of our capital and voting rights. Scailex is indirectly controlled by Mr. Ilan Ben-Dov. See "Item 3D. Risk Factors – 46.23% of our shares and voting rights are indirectly controlled by a single shareholder".

For information on our capital expenditures for the last two financial years, and for the principal capital expenditures currently in progress, see "Item 5B. Liquidity and Capital Resources – Capital Expenditures".

#### 4B. Business Overview

In accordance with general practice in the cellular telephone industry, we use the term "subscriber", unless the context otherwise requires, to indicate a telephone or a data or video device, rather than either a bill-paying network customer, who may have a number of telephones connected to the network, or a cellular telephone user who may share a single telephone with a number of other users. "Subscriber" includes our pre-paid customers. As of January 2008, a pre-paid subscriber has been, and will continue to be, recognized as such only following the actual use of his pre-paid SIM card. References to the number of subscribers are stated net of subscribers who leave or are disconnected from the network, or who have not generated revenue for the Company for a period of over six consecutive months ending at a reporting date.

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, 2009, we had approximately 3.042 million subscribers, representing an estimated 32% of total Israeli cellular telephone subscribers at that date. During the twelve months ended December 31, 2009, we increased our customer base by approximately 5.0% with approximately 144,000 net active new subscribers joining the Company in 2009, compared to 99,000 net new subscribers in 2008. At December 31, 2009, approximately 73.3% of our customer base (approximately 2,231,000 subscribers) was represented by post-paid subscribers who subscribe to post-paid tariff plans and 26.7% (approximately 811,000 subscribers) by subscribers who subscribe to pre-paid tariff plans. As of December 31, 2009, we also had more than 1,279,000 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 approximately 99% 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, VoB telephony services, and ISP services. Approximately 63,000 VoB and ISP subscribers joined the company during the ramp up period in 2009. (Subscribers to both cellular and fixed line services are counted separately for each service for the purposes of subscriber count).

On February 18, 2010, we announced comprehensive organizational changes designed to accomplish our strategy of transforming from a pure cellular player into a comprehensive communications service provider, as well as strengthening our customer-centric approach. The change is mainly driven by the trend of convergence in communications services and by the increasing complexity of products and customers' needs. The new structure includes modifications to our organization:

•the establishment of Private and Business Customers Divisions: Each Division incorporates all aspects of customer care, including sales of a wide variety of fixed and mobile products, customer services, technical support and retention activities; and

•the amalgamation of the current Fixed Line Division into the new structure in order to maximize the synergy between the fixed line and the mobile services and also enlist existing sales channels to the new fixed services sale efforts.

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 2009, we were named by Globes, a leading Israeli business daily newspaper, as the number-one communications brand in Israel for the seventh consecutive year. Finally in 2009, 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 over 98% of the Israeli population at year-end 2009. 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.

#### Special characteristics of the Cellular Telecommunications Industry in Israel

We believe that the following special characteristics differentiate the Israeli market from other developed cellular telecommunications markets:

•High Cellular Phone Usage. Israeli usage of cellular phones is relatively high compared to Western Europe in terms of average monthly usage per subscriber.

•Calling Party Pays. In Israel, only the party originating a telephone call pays for the airtime. Cellular telephone network operators do not charge subscribers to receive calls on their handsets, except while roaming. This encourages higher rates of cellular telephone usage.

•High Ratio of Post-Paid Subscribers. In Israel it is estimated that approximately 75% of the cellular companies' subscribers subscribe to post-paid plans, which is relatively high compared to the European average.

•High Cellular Telephone Penetration. Since 1994, the market has sustained a rapid annual rate of growth from a 2.6% penetration rate at year-end 1994 to an estimated penetration rate in Israel at December 31, 2009 of 127% representing more than 9.52 million subscribers out of an estimated population of approximately 7.5 million. The total number of estimated cellular telephone subscribers includes dormant subscribers and subscribers to multiple networks as well as other subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and

foreign workers.

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**Multiple Different Cellular Telephone Technologies.** The four cellular telephone licensees in Israel have systems based on multiple technologies. We are currently one of three Israeli network operators using GSM and UMTS systems. GSM is an advanced, internationally accepted technology, and according to an industry source, was used by more than 3 billion people worldwide as of December 31, 2009. Other technologies currently used by Israeli cellular telephone licensees include the N-AMPS analog, TDMA, CDMA and CDMA1x RTT, EVDO, D-AMPS, EDGE, UMTS/HSPA (HSDPA and HSUPA) and iDEN systems.

**Favorable Geography.** Israel covers an area of approximately 8,000 square miles (20,700 square kilometers) and its population tends to be centered in a small number of densely populated areas. In addition, the terrain of Israel is relatively flat. These factors facilitate the roll out of a cellular network in a cost effective manner.

**Strong Potential For Value-Added Services.** Published market data shows that the relatively young Israeli population has a propensity to accept and use high technology products. We believe that this characteristic of the Israeli population will facilitate further growth in the Israeli cellular telecommunications market as well as the acceptance of new value-added services as they become available on our network.

### 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. In order to reach customers, we use our own mobile and fiber optic networks, leased access and transmission lines, or, with respect to VoB services, the existing infrastructure of Bezeq, the incumbent land-line operator in Israel, and HOT, the cable television operator in Israel. 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. In the foreseeable future, however, we do not anticipate that revenues from these services will be material compared to our total cellular 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, including in connection with our 3G services. We also intend to support our branded image by continuing to focus on customer service, innovation and the quality of our network.



## 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:

**HSPA**Wide variety of communication products. We believe that our new initiative of offering VoB, ISP and VOD services will strengthen 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 competitive bundled services of other players, increase customer loyalty, and serve as an additional source of revenue.

**Focus on Customer Service.** We believe we provide outstanding 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 and Technology Leadership.** 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. Additionally, we believe that we are a recognized leader in the development and provision of cellular services in Israel.

**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 1,401 million and NIS 1,021 million for the years ended December 31, 2008 and 2009, 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.

## Marketing and Brand

We believe that a focused marketing strategy is critical to support our goal of sustaining our position as a leading provider of quality and innovative cellular communications solutions in Israel. Our marketing strategy is based upon the strong international orange brand and emphasizes high value for money, network quality, feature rich services, simplicity, innovation, customer service and customer retention. In addition, since we entered the VOB/ISP businesses in 2009, the Company has undertaken a strategy of marketing our brand as an all inclusive telecommunications services provider. In carrying out this strategy we have made a substantial effort in promoting the orange brand in Israel as a vehicle for differentiating our services from those of our competitors.

In order to carry out our strategy, we offer our subscribers competitive tariffs, technologies and services that we believe are advanced, including our 3G services and GPRS services. During 2008 we achieved the primary objective of our marketing strategy, which was to increase our 3G subscriber base and 3G usage by our customers as well as to enhance our long-term relationship with our customers through innovative retention activities.



In order to promote our advanced new services and to increase awareness of these services, we employ a large number of promotional activities and use a broad range of advertising media. During 2009 we continued to pursue extensive advertising presence in the media in order to maintain high exposure for our brand and advanced technologies. During 2009, our main advertising activities focused on promoting the subscribership and usage of 3G and HSPA services, and of advanced mobile applications and content such as PC-mobile synchronization and mobile broadband using data-cards, as well as increasing loyalty among our customers. Our marketing strategy focuses on promoting our services to various segments of the Israeli population, and we have extended this strategy to our 3G services. We advertise our services in several languages. In addition to traditional media, we promote our brand and services by sponsoring and initiating cultural and community programs. We use the distinctive orange brand logo in all our promotional activities and advertising. See “Item 4B. Business Overview–Intellectual Property.”

### Services and Products

Our principal business, which provides most of our revenues is currently the provision of mobile telecommunications services in Israel, and our goal is to become a diversified multi-service communications and media service provider and offer our subscribers a wide range of sophisticated and easy to use services based upon the latest proven technology.

Our core service is cellular telephony service – provided on both our GSM/GPRS network and our UMTS/HSDPA network. Our basic offer includes international dialing, roaming, voice mail, short message services, intelligent network services, content based on our cellular portal, data and fax transmission and other services. We are continually developing tailored value-added services to meet the special needs of our subscribers and to enhance our long-term relationship with our subscribers.

Our use of GSM, GPRS, UMTS and HSPA technologies enables high speed data transmission. All our content services, including 2G and 2.5G content, were re-branded during 2008 under the sub-brand “orange time”. Our orange time mobile services enable the streaming and downloading of rich applications and content and WAP browsing for 2G subscribers, while the 3G subscribers’ services are enhanced by video and high quality audio capabilities. Our MMS services enable subscribers to send photos, multimedia and animation from handset to handset and from handset to web. We also offer high quality customer service, as well as handset repair and replacement services for equipment sold to our subscribers.

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 and MP3 based services under the “orange time” sub-brand, and the transmission of data at speeds of up to 7.2 Mbps. We have concluded content agreements with a variety of content providers and suppliers in the Israeli television and entertainment industry.

In December 2008 and January 2009, we launched three additional non-cellular business lines: VoB telephony services that compete with fixed-line telephone services; ISP services that provide access to the internet as well as home Wi-Fi networks, VAS such as mail and anti-spam filtering; and Web VOD providing premium on-demand video (mainly full-track feature films and television series’ episodes), music tracks and games. See “Value-Added Services” below.

• The broadband market in Israel has been estimated by IDC, a consulting company, in its 2008 report to include 1.5 million consumer connections and 180 thousand business connections at the end of 2008. According to the Israel Central Bureau of Statistics, at the end of 2007, the time of the last census, there were 2 million households in Israel. Based on these statistics, the household broadband penetration in Israel is estimated to be approximately 75%.

The number of VoIP lines in Israel was estimated at the end of 2009 to be 750 thousand lines. This estimate is based on two major VoIP operators, who published reports for September 2008 and December 2008, respectively. The number of Public Switched Telephone Network ("PSTN") lines (excluding VoB) in Israel is estimated by IDC to be 2.6 million lines at the end of 2008.

Our management systems are certificated and monitored by IQC (The Institute for Quality and Control, an RVA accredited Certification Body authorized by Bureau Veritas Quality International) to the appropriate international standards:

- ISO 9001:2008, which focuses on fulfillment of clients and legal requirements;
- ISO 14001:2004, which coordinates our commitment to habitat and environment; and
- OHSAS 18001:2007, which directs our efforts to provide a safe and healthy work environment at our premises.

Our management systems won a citation in the Israeli Contest for Business Excellence (2005) for outstanding performance in implementing quality, environmental, health and safety as well as social accountability awareness. The common cornerstone to these joint systems is the full involvement and commitment of top management and personnel to comply with demands and continuous improvements in our performance and customer satisfaction.

#### Tariff Plans

Since the beginning of our full commercial operations in 1999, we have introduced tariff plans aimed at bringing innovation to the Israeli cellular communications market. At December 31, 2009, approximately 73.3% of our customer base (approximately 2,231,000 subscribers) was represented by post-paid subscribers who subscribe to post-paid tariff plans, and 26.7% (approximately 811,000 subscribers) by subscribers who subscribe to pre-paid tariff plans.

Our post-paid business tariff plans offer features attractive to business users such as charging fees based on airtime usage without adding the interconnect charges imposed by other cellular and land-line providers for calls made by our subscribers that terminate on third party networks, and providing discounts for calls to designated numbers within a subscriber's calling circle. In addition, we usually offer handset subsidies to customers joining these tariff plans. Most of these tariff plans include subscription periods of 36 months.

The elements of our tariff plans for post-paid private customers are packaged and marketed in various ways to create tariff packages attractive to target markets, including families, soldiers, teens, students and other sectors. Our tariff plans for private customers feature a certain number of free minutes for calls made between family members and special discounts on tariffs for calls among a limited number of family members or friends. They also offer limited handset subsidies. Based on an amendment to our license in March 2008, standard subscriber agreements with private customers have been shortened as of January 2009 to 18 months.

Under our pre-paid plans, upon purchase of a SIM card or phone card or prepayment by credit card, customers can use our network, including some of our value-added services, without the need to register with us or enter into any contract. Our pre-paid plans enable us to compete in the pre-paid cellular services market.

#### International Roaming

Israelis are frequent travelers, and Israel is a highly visited country. According to the Israel Central Bureau of Statistics, in 2009, more than 4 million overseas departures of Israelis were recorded, and almost 2.8 million people visited Israel during 2009. Roaming allows a mobile phone subscriber to place and to receive calls while in the coverage area of a network to which he or she does not subscribe and to be billed for such service by his or her home network. Facilitating international roaming was a primary design goal of the GSM system from its inception. A GSM roamer can therefore expect to enjoy substantially the same services, features and security while traveling as he does at home. We consider international roaming to be a significant source of revenue. The Ministry of Communications may introduce new regulations that would limit our revenues from roaming services.

At December 31, 2009, we had open commercial roaming relationships with 396 operators in 176 countries or jurisdictions. We also have agreements with satellite operators, providing global coverage, requiring the use of unique handsets. Creating roaming relationships with multiple operators in each country increases potential incoming roaming revenue for us and gives our subscribers more choice in coverage, services and prices in that country.

At December 31, 2009, our commercial roaming relationships included 124 3G roaming agreements in 64 countries, compared to 81 3G roaming agreements in 42 countries at year-end 2008. The 3G roaming agreements enable our 3G roamers to initiate video calls, high speed data and video and audio content while abroad. Since we operate our GSM

services on the 900 MHz band, which is the most widely-used band among GSM operators worldwide in terms of handsets, and also on the 1800 MHz band, all of our roaming enabled subscribers may roam to most countries where we have roaming capability using their own handsets without modification. In some countries cellular networks use either the 1900 MHz band of GSM or other technologies (GSM 850, CDMA or UMTS) with which we have established international roaming. Our subscribers who own dual or tri-band handsets that work on GSM 1900 as well as GSM 900 may also use their own handsets in countries that deploy GSM 1900 frequency with networks using GSM 1900. Other subscribers who advise us of their intention to visit those countries are either loaned free of charge a compatible handset into which they insert their SIM, thus retaining their own phone number, phone book and all other regular features, or are given the option to rent such handsets at their destination upon their arrival. Since the launch of our 3G network, 3G networks around the world are becoming gradually available to our 3G subscribers.



See “Item 4B. Business Overview – Regulation” and also “Item 3D. Risk Factors – Risks Relating to the Regulation of Our Industry” for risks relating to the regulation of roaming tariffs.

#### Value-Added Services

In addition to standard GSM value-added services, including voice mail, Short Message Service (“SMS”), voice messaging, fax mail, call waiting, call forwarding, caller identification and conference calling, we currently offer and are developing a variety of additional value-added services. Value-added network services are important to our business as they create differentiating factors and increase customer usage and satisfaction. We continuously track all major market developments regarding value-added network services, and we intend to implement and offer those services that are likely to be popular with customers and which would add value to our business. Some of the value-added services that we offer are available only to subscribers who have certain handset models.

Starting in 2008, we expanded our value-added services beyond the cellular domain to include:

• **VoB.** This service allows users to make and receive telephone calls over the Internet through an ISP connection. Our service includes Quality of Service, which ensures high quality voice transmission regardless of the load on the internet connection, and a home gateway which is unique in the Israeli market for its range of sophisticated functionalities, including call hijack between the customer’s fixed and mobile telephone lines.

• **ISP.** As an internet service provider, we offer our customers access to the internet and internet services through a separate communications network. Our ISP offering includes improved email accounts based on Google’s Gmail service, home WiFi networking, anti-virus and site filtering based on the customer’s restriction definition, and other value added internet services. To back up our offering, we have established a dedicated staff for installation and support, and also provide a direct connection to the Israeli backbone and international backbone.

• **Web VOD Services.** This service gives internet users (including those of other ISPs) access to our on-line media shop and enables them to view video items on their computers through internet streaming. Under the “orange time” brand, our on-line media shop offers premium on-demand video (mainly full-track feature films and television series’ episodes), music tracks and PC (portable computer) and mobile games, under a variety of payment plans.

Our main focus throughout 2009 was to continue to expand our 3G and HSPA business in Israel and to enhance our relationship with our customers through active retention activities. To meet these goals, we have expanded our 3G handset portfolio to cater to several specific market segments, we have enhanced our content portal offering and we have launched several innovative retention activities.

Our VoB, ISP and VOD services are available to all Israeli customers, not only to mobile customers, thus enabling us to reach more customers and grow our total customer base.

During 2009, the Company experienced an increase (as part of a global trend) in the purchase of cellular modems that allows surfing and data consumption on the cellular network through lap-top computers. The Company expects this trend to continue and to increase during the upcoming year.

## Handsets

We provide handsets to our subscribers at discounts of up to 100% when they first become subscribers or when upgrading their handsets. The discount offered depends upon the tariff package and special promotions offered from time to time. We currently offer a range of different handset models supplied by a number of manufacturers. We offer handsets to satisfy our subscribers' roaming needs in the 900 MHz, 1800 MHz and 1900 MHz bands, and in 2100 MHz (3G) as well. Not all handsets support all band ranges. We evaluate the technical features of every new cellular handset and, if we decide to make it available to subscribers, we obtain a type approval from the Ministry of Communications for such handset. We advise our sales representatives and dealers on compatibility and technical issues. All our handsets are Enhanced Full Rate ("EFR") compatible to provide high voice quality. All of our handset models have Hebrew language displays. We offer innovative handsets in our portfolio, including large screens with high resolution displays, high quality cameras with video capabilities, touch screen, large memory, embedded GPS, open operating systems (Symbian, Windows Mobile) with enhanced applications, T.V. application and music library, backup application, messaging and internet applications and rich content in our portal and on the internet. Following the launch of our HSDPA network, we also sell handsets that enable customers to use content services with high-speed rates of data transmission, cellular modems and lap-tops with HSDPA embedded data cards.

## Land-line Services

In addition to our cellular services, we provide, through our subsidiary Partner Landline Telecommunication Solutions, L.P., land-line transmission and data capacity services, using the transmission network we purchased from Med-1 I.C.1 (1999) Ltd. in 2006 and have since continued to expand. Our land-line capacity also includes capacity which we lease from other land-line telecommunications service providers. The services we offer include primarily connectivity services by which we provide high quality, dedicated, point-to-point connection for business customers and telecommunications providers, as well as land-line services to business customers.

## Customer Service

Our customer support and service provides several channels for our customers: call centers, walk-in centers and self-service support, which includes Interactive Voice Response ("IVR"), web-based services and automated SMS.

**Call Centers.** Guided by our aim to provide high quality service, our call-center services are divided into several sub-centers: customer segment (business, private and pre-paid) and specialized support and services (finance, network, international roaming and data transfer related issues). The call center services are provided in four languages: Hebrew, Arabic, English and Russian.

**Walk-in Centers.** We currently operate 33 Partner-owned service and sales centers across Israel. These centers provide a face-to-face, uniformly designed, contact channel and offer all services that we provide to customers: sales, handset upgrade, handset maintenance and other services (such as finance, rate-plan changes and subscription to new services). Several centers are focused on sales to both private and small business customers. These centers are located in central locations, such as shopping malls in Tel Aviv and its periphery, Jerusalem, Haifa and Be'er-Sheba. Lease agreements for our retail stores and service centers are for periods of two to five years. We have the option to extend the lease agreements for different periods including the initial lease period. See also Note 17(b) to our consolidated financial statements.

**Self-Service.** We provide our customers with various self-service channels, such as IVR, web-based services, services via SMS and services via WAP. These channels provide general and specific information, including tariff plans, account balance, billing-related information and roaming tariffs. They also provide customers information regarding trouble shooting and handset operation, and enable customers to activate and de-activate services and to download

content.

All of our service channels are monitored and analyzed regularly in order to ensure the quality of our services and to detect areas that require improvement.

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## Sales and Distribution

We apply a multi-channel approach to target various market segments and to coordinate our sales strategy.

We distribute our services and products primarily through:

- direct sales channels, which consist of Partner-owned sales centers and business sales representatives; and
- indirect sales channels, which consist of traditional networks of specialized dealers and non-traditional networks of retail chains and stores.

### Direct Sales Channels

**Orange Sales and Service Centers:** All of our walk-in centers serve as sales centers. The face-to-face contact enables customers to get the “feel and touch” of new handsets and services demonstrated by our representatives. The “feel and touch” approach enables us also to promote in particular our 3G products and services.

**Direct Sales Force:** Our sales force is comprised of service and sales representatives.

- A team of regional representatives and customer account managers, located in four regional offices, supports small to medium-sized businesses.
- A team of corporate representatives and customer account managers who support large corporate customers.
  - A “door to door” sales-force focuses on individual and small business customers.
- A telemarketing department conducts direct sales by phone (to private and business customers), initiates contacts to prospective customers and coordinates appointments for the sales representatives.

Our sales force undergoes regular training to improve their skills of selling advanced solutions such as cellular data, intranet extension and connectivity, virtual private networks and other value-added services that appeal to corporate customers.

In addition, as of December 31, 2009, we have 33 orange stands in shopping centers throughout the country, in addition to eight shops.

### Indirect Sales Channels

At December 31, 2009, we had agreements with 28 traditional dealers providing 46 points of sale, selling a range of our products. The private dealer network is an important distribution channel because of its ability to attract existing cellular users to our network. Our dealer network focuses primarily on sales to individual customers and, to a lesser extent, small business customers. Most of our dealers specialize in sales for post-paid customers, and others specialize on sales for pre-paid customers and distribution of pre-paid handsets to sub-dealers. In addition, we have specific dealers that target different segments of the Israeli population with the appropriate style, language and locations. We provide regular training to employees of our dealers to update them on our products and services. Our dealer managers visit dealers on a regular basis to provide information and training, answer questions and solve any problems that may arise. We pay our dealers competitive commissions and provide handset subsidies. However, dealers are not entitled to commissions for any customers that terminate their service within 60 days of activation.

All indirect sales channels are supported by a specialized “dealer support” call center providing information, support and coordination of appointments of car-kit installations.

#### Customer Contracts and Credit Policy

Based on an amendment to our license that became effective April 2008, standard subscriber agreements with private customers were shortened as of January 2009 from a maximum of 36 to 18 months. Most of our business customers sign 36-month contracts. Subscribers are billed monthly for airtime charges and charges per services. All customers are supervised by daily reports in order to display exceptional usage. Roaming access for direct debit subscribers is subject to credit scoring by Partner’s credit supervisors with the assistance of outside credit agencies and may require additional guarantees or deposits.

Most of our individual subscribers pay for their services by credit card. All credit card accounts are subject to an initial maximum credit limit each month, which varies depending upon the type of credit card and for which we obtain prior approval from the card issuer. When a subscriber account reaches this limit, we may seek approval from the card issuer. If the card issuer does not grant the approval, we may require the customer to provide other means of payment or arrange an increase in the approved limit from his credit card issuer. If this does not occur, the customer's usage may be limited or suspended until we receive a cash deposit or guarantee from the customer.

All business subscribers can subscribe and pay for their services by credit card or direct debit. Customers acquiring more than ten handsets (or less in certain circumstances) are subject to a credit scoring review performed by Partner's credit supervisors with the assistance of outside credit agencies.

Most of our subscribers pay for the handsets in 36 or 18 installments, depending on the term of their contract, which are charged directly to their credit card or to their monthly bill. If the customer opts to pay for the installment via his monthly bill, the outstanding installment payments are not secured. Under the terms of these contracts, customers who terminate their contracts prior to the expiration of the contract's term and who have purchased a subsidized handset from our dealers or from us can be charged for payment of the residual price of their handset. This charge reflects the difference between the price they paid for the handset, if any, and the list price, adjusted for the remaining number of months until the end of the contract term.

#### Our Network

We have built an extensive, resilient and advanced network system in Israel, allowing us to offer our services with extensive coverage and consistent high quality. During the years ended December 31, 2008 and 2009, we made capital expenditures of NIS 490 million and NIS 375 million (\$99 million), respectively, in our network infrastructure, including optic fibers.

#### Overview

Third generation wireless communication, which offers full interactive multimedia capabilities at data rates of up to 384 Kbps, is bringing wire-free networks significantly closer to the capabilities of land-line networks. Improvements in coding and data compression technology will provide better voice quality and more reliable data transmission. UMTS is the global standard adopted for the implementation of third generation wireless telecommunications capable of data rates of 7.2 Mbps and is the 3G technology we use. HSPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds for downloading (HSDPA) and uploading (HSUPA) data.

#### Infrastructure

As of December 31, 2009, our GSM network consisted of 1,882 macrobase transceiver stations, 203 microbase transceiver stations and 414 indoor transceiver stations, all linked to 30 base station controllers. The base station subsystem is controlled by 11 cellular switching centers. Base transceiver stations, cellular switching centers and base station controllers are interconnected by approximately 5,750 transmission links. Ericsson and Nokia supply our base station controller and base transceiver station sites for our GSM and GPRS network.

As of December 31, 2009, our UMTS network consisted of 1,834 macrobase transceiver base stations, 50 microbase transceiver stations and 291 indoor transceiver stations, all linked to 13 radio network controllers. The base station subsystem is controlled by four mobile switching centers and six media gateways. The base transceiver stations, the mobile switching centers and the radio network controllers are interconnected by approximately 2,200 transmission links. As of January 2008, Ericsson is our sole 3G UTRAN and core network equipment supplier, and we are

progressively replacing equipment purchased from other suppliers with Ericsson equipment.

In addition, our network is interconnected with two public switched telephone companies, Bezeq and HOT, in several locations across Israel. Our network is also directly connected to the three cellular networks and the six Israeli international operators, and indirectly to the land-line and cellular telephone networks of Paltel.

Our transmission network is made up of leased lines from Bezeq and other operators and our own microwave links and fiber optic infrastructure. Currently most of our transmission network consists of leased lines. Our fiber-optic transmission network enables us to reduce our transmission costs as well as to provide our business customers with bundled services of data and voice transmission and land-line services

Our GSM and UMTS networks covered over 98% of the Israeli population at year-end 2009. We are continuing to expand and improve the coverage, capacity and quality of our UMTS network.

### Network Design

Our primary cellular network design objective is to further expand and improve our UMTS/HSPA cellular telephone network to provide high voice, video and packet quality, call reliability, high capacity and high coverage quality and to maintain technological advantages over our competitors. In formulating our network design objectives, we have been guided by our business strategy to continue to broaden the highest quality network. The quality parameters that we seek to satisfy are those that we believe are important to cellular phone users: voice quality, high data rate packet sessions, low “blocked call” rate, low “dropped call” rate and deep indoor penetration, especially in densely populated areas or areas of special commercial interest. The two main examined parameters used to measure network performance for voice and packet data are the setup call success rate and the dropped calls rate.

With these quality parameters in mind, we rolled out our UMTS/HSPA network starting in 2004, which shares locations with the GSM sites. In December 2007, we signed an agreement with LM Ericsson Israel Ltd. for the replacement of third party 3G radio equipment existing in our network, and they are currently the main 3G supplier of our network. See “Item 10C. Material Agreements”.

We use monitoring probes and counters to ensure network quality.

Our transmission network design confers the following benefits: (i) necessary bandwidth for GSM and UMTS/HSPA services; (ii) resilience; (iii) use of high transmission rate back-bone routes based on Synchronous Digital Hierarchy; and (iv) the ability to utilize a new generation of sophisticated technology to optimize the system and increase capacity where necessary. Our switching architecture is based on two transit switches connected to all of our systems and platforms.

This infrastructure enables us to provide services to our customers such as call “hijack” which allows customers to retrieve incoming mobile line calls on their fixed line, improved email accounts based on Google’s Gmail service, anti-virus and site filtering based on the customer’s restriction definition.

In December 2008 and January 2009, we launched additional non-cellular business lines that target households in the Israeli market. We became an Internet Service Provider (ISP), providing internet to Israeli customers at their homes, over third parties’ existing network infrastructure. In addition to this service, we began providing fixed-line phone calls using VoB technology. The technology is based on the Nokia Siemens Next Generation Network (NGN) softswitch. In order to provide the fixed-line services, we developed a home gateway box (smartbox), that provides the customer with a setup of a home network WiFi based on the protocol 802.11n, FXS and DECT supported phones, and built-in firewall.

### Spectrum Allocation and Capacity



Spectrum availability is limited and is allocated by the Ministry of Communications through a licensing process. Pursuant to the terms of our license and subsequent allocations, we were allocated 2x10.4 MHz in the 900 MHz frequency band, of which 2x2.4 MHz are shared with Jawwal which operates in the West Bank and the Gaza Strip. We also have an agreement to use an additional 2x2.4 MHz of spectrum in the 900 MHz frequency band on a shared basis with Jawwal. Under this agreement, which has been endorsed by the Ministry of Communications, we are permitted to use this additional spectrum in Israel so long as we do not cause interference in areas where Jawwal operates. See “Item 3C. Risk Factors” for a discussion of the risks associated with regulatory developments in spectrum allocation.

We were also allocated two additional bands of spectrum: 2 x 10 MHz of GSM 1800 spectrum and 2 x 10 MHz and 1 x 5 MHz of UMTS/HSDPA third generation in the 2100 MHz frequency band. We operate GSM 1800 MHz band base transceiver stations that enhance the capacity of our GSM 900 MHz network, and improve our GSM 900 MHz network's quality.

#### Enabling Systems

Our UMTS network offers advanced applications and services including, among others, a UMTS content portal offering a variety of services such as live TV channels, JAVA games, maps and directions application, wide range of music (MP3) services. We have installed a video gateway and a streaming server, enabling us to offer our customers a range of video services on UMTS handsets.

#### Site Procurement

Once a new coverage area has been identified, our technical staff determines the optimal base station location and the required coverage characteristics. The area is then surveyed to identify network sites. In urban areas, typical sites are building rooftops. In rural areas, masts are usually constructed. Technical staff also identify the best means of connecting the base station to the network, for example, via leased or owned and operated microwave links or wired links leased from Bezeq. Once a preferred site has been identified and the exact equipment configuration for that site decided, we begin the process of obtaining necessary approvals.

The erection of most of these network sites requires building permits from local or regional authorities, as well as a number of additional permits from governmental and regulatory authorities, such as:

- erection and operating permits from the Ministry of Environmental Protection;
- permits from the Civil Aviation Authority, in certain cases; and
- permits from the Israeli Defense Forces.

See "Item 4B. Information on the Company–Business Overview–Regulation" for a description of the approvals that are required for the erection and operation of network sites and the requirement to provide indemnification undertakings to local committees.

#### Suppliers

Ericsson, together with its affiliates, is a major supplier of GSM equipment with cellular switching centers, base station controllers, base transceiver stations, transit transmission centers, operation support systems and transmission systems equipment. Ericsson is also our major supplier of GPRS network equipment, including GPRS support nodes and gateway GPRS support nodes, as a second vendor for UMTS infrastructure equipment. On December 20, 2007, we entered into an agreement with Ericsson for the supply of 3G radio equipment to replace our existing Alcatel-Lucent 3G equipment and to expand our existing 3G network, as well as to provide support and maintenance for the Ericsson elements in our network. As a result, Ericsson became our sole supplier for our 3G network.

Nokia-Siemens, together with its subsidiaries and/or its associated companies also supplies us base station controllers, base transceiver stations and network management system equipment, as well as equipment for our NGN network. Nokia-Siemens also supplies us with switches for the land-line telephony services based on IP.

Bezeq supplies the Company with land-line transmission services for connecting traffic between 65% of the Company's sites and its switches.

Alcatel provides the Company with a pre-paid system that allows subscribers to pay set amounts in advance and thereby allows subscribers to manage their expenses for services.

In June 2009, we entered into an agreement with Apple Sales International for the purchase and resale of iPhone handsets in Israel. See "Item 10C. Material Contracts".

During 2009 we purchased a substantial portion of our Nokia handsets from Eurocom Communications Ltd. ("Eurocom"). See "Item 7B. Related Party Transactions—Transactions with Affiliates—Agreements with affiliates of Eurocom".

During 2009, we purchased a substantial portion of our Samsung handsets from Scailex. See "Item 7B. Related Party Transactions—Transactions with Affiliates—Agreements with affiliates of Scailex".

We continue to purchase certain network components from various other key suppliers. We believe that our network suppliers' price structure is competitive with industry standards. See also "Item 3D. Key Information—Risk Factors—We depend on a limited number of suppliers for our network equipment. Our results of operations could be adversely affected if our suppliers fail to provide us with adequate supplies of network equipment or maintenance support on a timely basis."

#### Interconnection

All telecommunications providers with general licenses in Israel have provisions in their licenses requiring them to connect their networks with all other telecommunications networks in Israel. Currently, our network is connected directly with all other telecommunications networks operating in Israel.

We are currently operating without any formal interconnect agreements with Bezeq. Day-to-day arrangements with Bezeq substantially conform to a draft interconnect agreement negotiated with Bezeq. Bezeq is required by law not to discriminate against any licensed telecommunications operator in Israel with respect to the provision of interconnect services. We currently pay Bezeq an interconnection fee based on a tariff structure set forth in the Interconnection Regulations (Telecommunications and Broadcasts) (Fees for Interconnection) (2000).

We have formal interconnect agreements with all Israeli cellular and with the other land-line and voice over cellular companies. The interconnect tariffs are set forth in the Interconnection Regulations (Telecommunications and Broadcasts) (Fees for Interconnections) 2000 that imposes a uniform call interconnect tariff for all cellular telephone operators.

Our network is connected directly to Paltel and Jawwal, the Palestinian land-line and cellular operators. The interconnect tariffs are set out in a commercial agreement. We are in the process of interconnecting with Watania, the second Palestinian cellular operator.

In recent years, the Ministry of Communications has reduced the call interconnect, and SMS interconnect tariffs. In response to the tariff reductions described above, we implemented cost-cutting measures as well as price increases and repackaging of our tariff plans. Depending on the effectiveness of such steps, and other factors such as general market conditions, these regulatory changes may negatively impact our revenues and profits. The Grunau Committee, whose recommendations were published in March 2008, recommended further review of interconnect tariffs. See "Regulation – Telecommunications Law" below.

We have written interconnect agreements or operating arrangements with all of the international service providers serving Israel. The regulated interconnect tariff for incoming international calls was updated to NIS 0.2222 per minute, in line with the updates in interconnect tariffs for incoming domestic calls, effective March 1, 2009. This tariff, adjusted to conform to changes in the consumer price index ("CPI") in 2008, amounts to NIS 0.2415 per minute as of March 1, 2009. As of March 1, 2010, the tariff was further adjusted to conform to changes in the consumer price

index in 2009, and was raised to NIS 0.2510 per minute.

In January 2007, one of our subsidiaries received a domestic land-line license. Our subsidiary is connected, directly with all other telecommunication networks operating in Israel. The interconnection fees are set by the Interconnection Regulations (Bezeq and Broadcasts) (Fees for Interconnection) 2006.

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## Competition

There are currently four cellular telephone network operators in Israel: Partner, Cellcom, Pelephone and MIRS. We compete with Cellcom, Pelephone and MIRS principally on the basis of telecommunications service quality, brand identity, variety of handsets, tariffs, value-added services and the quality of customer services.

The table below sets forth an estimate of each operator's share of total subscribers in the Israeli cellular market at December 31, 2005, 2006, 2007, 2008 and 2009.

| Market Share* | 2005 |   | 2006 |   | 2007 |   | 2008 |   | 2009 |   |
|---------------|------|---|------|---|------|---|------|---|------|---|
| Partner       | 32   | % | 32   | % | 31.7 | % | 32   | % | 32   | % |
| Cellcom       | 33   | % | 34   | % | 34.1 | % | 35   | % | 35   | % |
| Pelephone     | 30   | % | 29   | % | 29.0 | % | 29   | % | 29   | % |
| MIRS          | 5    | % | 5    | % | 5.2  | % | 4    | % | 4    | % |

\* Based on information contained in published reports issued by, and public statements made by, Pelephone and Cellcom or by their respective shareholders and from Partner subscriber data. The figures for MIRS are our estimates.

Cellcom is an Israeli corporation whose major beneficial shareholder is Discount Investment Corporation Ltd, (DIC). DIC is a majority-owned subsidiary of IDB Development Corporation, which in turn is a majority-owned subsidiary of IDB Holding Corporation Ltd (IDB). The IDB group is one of the largest diversified business groups in Israel, whose indirect subsidiaries also operate in the Israeli communications market.

Cellcom operates nationwide cellular telephone networks based on GSM 1800 MHz/GPRS, D-AMPS, EDGE and UMTS/HSDPA HSUPA technologies.

Pelephone is an Israeli corporation wholly owned by Bezeq, the primary land-line operator in Israel that is controlled by S.C.G. Group (Haim Saban), the Apax Fund, and Arkin Communications (Mori Arkin). According to media reports and publications, an agreement was recently signed for the sale of the controlling shares in Bezeq to 012 Smile, a company indirectly controlled by Shaul Elovitz, the controlling shareholder of Eurocom, which is the official distributor of the Nokia group in Israel. Pelephone, which was initially a non-GSM operator and had used CDMA-1x Real Time Technology, as well as the EVDO technology, launched in the beginning of 2009 a UMTS/HSPA network, which has strengthened its ability to compete in the provision of inbound and outbound roaming services as well as improved its competitive position in the market.

MIRS, an Enhanced Specialized Mobile Radio, or "trunking" network, holds a general license to operate as a mobile telephone operator. MIRS is an Israeli corporation whose major shareholder is Motorola Communications (Israel) Ltd. MIRS operates using an Enhanced Specialized Mobile Radio, or "trunking" iDEN network and has expressed its intention to roll out a WiMAX network subject to receiving a license. MIRS has also expressed its interest in upgrading its network to WiMax technology. In June 2009, Motorola announced its intention to sell MIRS, its wholly-owned subsidiary. According to media reports and publications, a company controlled by Patrick Drahi, who is also the principal shareholder of HOT, entered into an agreement to acquire all of Motorola's holdings in MIRS, which would allow the purchaser to assign all of its rights and obligations under the agreement to HOT. HOT's two main areas of activity are cable multi channel television broadcast and domestic land line telecommunication services. This transaction would contribute to the creation of another telecommunications conglomerate in Israel, which would increase competition in the market.

In addition, the Palestine Telecommunication Co. Ltd. (“Paltel”) operates a GSM mobile telephone network under the name “Jawwal” in the Palestinian Administered Areas, as well as a land-line network. Paltel’s GSM network competes with our network in some border coverage overlap areas. In addition, a second Palestinian operator, Wataniya, launched its GSM network during 2009. Several service providers offer competitive roaming solutions. The service is offered, inter alia, by the International Long Distance vendors as well as by specialized enterprises.

To the extent that land-line telephones are used instead of mobile telephones, we also compete with Bezeq, the incumbent land-line operator in Israel, HOT, the cable television operator in Israel, and other telecommunication services providers who are entering the land-line market. Bezeq holds 100% of the shares of Pelephone and Bezeq International, which may enable Pelephone and Bezeq and other affiliates of Bezeq to offer bundled services of land-line, mobile telephone and other telecommunication services, subject to regulatory approval. In the future other holders of licenses to provide land-line telephone services may enter the mobile telecommunications services market via MVNO and increase the level of competition we face.

In connection with our new services beyond the cellular market, there are currently three major fixed ISP providers in Israel that we compete with since recently entering this market: Bezeq International, Smile 012 and Netvision. At the time of our entrance into the ISP market, the three major ISPs already operating in the Israeli broadband market accounted together for more than 95% of the ISP market. We believe that through our unique product offerings, our high level of customer service and our meticulous execution we will be able to penetrate this market in the coming years.

With respect to VOD, we were one of the first operators in Israel to launch Web VOD service over the internet to the user's PC. The service is considered to be innovative and certain media and telecom companies have expressed an interest in approaching this market. In the land-line telephone service market including both legacy and VoB transmission, which we have entered, there are a number of providers. Bezeq is the major Time Division Multiplexing ("TDM") provider and HOT and Smile 012 began providing VoB/VoIP service a few years ago. YES satellite services has recently launched an over the top internet based VOD service available only to their subscribers and offered via a set top box but is not available via a PC.

The Ministry of Communications has granted several service providers with a trial license to provide VoBoC services. For a discussion of the risks created by our competitive environment, including risks arising in connection with government measures to increase competition, see "Item 3D. Risk Factors".

### Information Technology

We depend upon a wide range of information technology systems to support network management, subscriber registration and billing, customer service and marketing and management functions. These systems execute critical tasks for our business, from rating and billing of calls, to monitoring our points of sale and network sites, to managing highly segmented marketing campaigns. As our subscriber base has grown, we have devoted significant resources to expanding and enhancing our information technology systems, adopting and implementing new systems, including Customer Relations Management ("CRM") systems, which have contributed to our customers' satisfaction with our service, as well as updating our financial management and accounting system. We believe these systems are an important factor in our business success since our commercial launch.

While many of our systems have been developed by third-party vendors, all of them have been modified and refined to suit our particular needs. In certain instances, we have developed critical information technology systems internally to meet our specific requirements. For example, significant segments of our CRM and business information infrastructure were developed internally and were designed to integrate our customer service outreach with our overall sales and marketing effort. In other cases, conversely, we have outsourced responsibility for certain systems to third parties. Our "Vantive" CRM system is in the process of being replaced through a contract with IBM to implement a new CRM system based upon "Siebel" software. The migration to the new CRM system is still in progress.

### Intellectual Property



We are the registered owners of the trademark “Partner” in Israel with respect to telecommunications-related devices and services, as well as additional trademarks. We have also registered several internet Web domain names, including, among others: [www.partner.co.il](http://www.partner.co.il) and [www.orange.co.il](http://www.orange.co.il).

We have entered into a brand license agreement with Orange International Developments Limited, a subsidiary of Orange Limited, formerly Orange plc. Under this agreement, Orange International appointed us as a permitted user of its trademarks in Israel. Under this license agreement, we have the exclusive right to use the orange brand in advertising and promotional materials in Israel. The term of the brand license began on July 1, 1998. The trademark license is royalty-free for the first 15 years of its term. In 2012, the parties are to discuss the royalties to be paid for a five-year term beginning July 1, 2013. In 2017, the parties are to again consider the royalties to be paid for an additional five-year term beginning July 1, 2018. If the parties do not agree on the amount of royalty payments, the determination of royalty payments is referred to an independent expert. Under this license agreement, we are required to comply with the orange brand guidelines established by Orange International. We have the right to use the orange brand as long as we are able and legally eligible under the laws of Israel to offer telecommunications services to the public in Israel. However, the license agreement may be terminated by mutual agreement, or at our discretion, or by Orange International if a court determines that we have materially misused the brand and we continue to materially misuse the brand after such determination of material misuse.

We have also entered into a brand support/technology transfer agreement with Orange Personal Communications Services Limited. Under this agreement, Orange Personal will provide us with information and expertise to support the orange brand in Israel at an agreed cost. See “Item 3D. Risk Factors– Our right to use the "orange" brand is royalty free only until 2013. After that time, we are likely to be required to pay royalty payments should we decide to retain the orange brand. The amount of the royalties may be significant.”

In addition, we are a full member of the GSMA Association. In conjunction with the promotion and operation of our GSM network, we have the right to use their relevant intellectual property, such as the GSM trademark and logo, security algorithms, roaming agreement templates, and billing transfer information file formats. We are eligible to remain a member of the GSMA Association for as long as we are licensed to provide GSM service.

## REGULATION

### Overview

We operate within Israel primarily under the Communications Law (Telecommunications and Broadcasting), 1982 (the “Telecommunications Law”), the Wireless Telegraphy Ordinance (New Version), 1972 (the “Wireless Telegraphy Ordinance”), the regulations promulgated by the Ministry of Communications and our license. The Ministry of Communications issues the licenses which grant the right to establish and operate mobile telephone and other telecommunication services in Israel, and sets the terms by which such services are provided. The regulatory framework under which we operate consists also of the Planning and Building Law, 1965, the Consumer Protection Law, 1981, and the Non-Ionizing Radiation Law, 2006. Additional areas of Israeli law may be relevant to our operations, including antitrust law, specifically the Restrictive Trade Practices Law, 1988, the Class Actions Law, 2006, and administrative law.

### Telecommunications Law

The principal law governing telecommunications in Israel is the Telecommunications Law and related regulations. The Telecommunications Law prohibits any person, other than the State of Israel, from providing public telecommunications services without a license issued by the Ministry of Communications.

General licenses, which relate to telecommunications activities over a public network or for the granting of nationwide services or international telecommunications services, have been awarded to Bezeq, and to HOT, to the four cellular telephone operators and to the international operators. In addition, the Ministry of Communications may issue additional mobile telephone operator and other licenses in the future.

The Ministry of Communications has the authority to amend the terms of any license. The grounds to be considered in connection with such an amendment are government telecommunications policy, public interest, the suitability of the licensee to perform the relevant services, the promotion of competition in the telecommunications market, the level of service and changes in technology. The Ministry of Communications may also make the award of certain benefits, such as new spectrum, conditional upon the licensee's consent to a license amendment. The Ministry of Communications also has the authority to revoke, limit or suspend a license at the request of the licensee or when the licensee is in breach of a fundamental condition of the license, when the licensee is not granting services under the license or is not granting services at the appropriate grade of service or when the licensee has been declared bankrupt or an order of liquidation has been issued with respect to the licensee. Public interest may also be grounds for the rescission or suspension of a license.

The Ministry of Communications, with the consent of the Ministry of Finance, may also promulgate regulations to determine interconnect tariffs, or formulae for calculating such tariffs. Moreover, the Ministry of Communications may, if interconnecting parties fail to agree on tariffs, or if regulations have not been promulgated, set the interconnect tariff based on cost plus a reasonable profit, or based on each of the interconnecting networks bearing its own costs.

The Telecommunications Law also includes certain provisions which may be applied by the Ministry of Communications to general licensees, including rights of way which may be accorded to general licensees to facilitate the building of telecommunications networks or systems and a partial immunity against civil liability which may be granted to a general licensee, exempting the licensee, inter alia, from tort liability with the exception of direct damage caused by the suspension of a telecommunications service and damage stemming from intentional or grossly negligent acts or omissions of the licensee. The Ministry of Communications has applied the partial immunity provisions to us, including immunity in the event that we cause a mistake or change in a telecommunication message, unless resulting from our intentional act or gross negligence. Recently, the Ministry of Communications initiated a review to re-evaluate the scope of the immunity provisions.

In January 2007, the Telecommunications Law was amended to provide that the Ministry of Communications is authorized to impose significant monetary sanctions on a license holder that breaches a provision of its license, which breach causes, or may cause, significant harm to the public or to competition.

**Royalties.** Pursuant to the Telecommunication (Royalties) Regulations, 2001, we must pay royalties to the State of Israel every quarter based on our chargeable revenues, as defined in the regulation, from mobile telephone services (including, among other, airtime, monthly subscription fees, roaming services and non-recurring), on a cumulative basis, excluding value-added tax. Revenues for purposes of royalty calculation also exclude revenues transferred to other telecommunications license holders, bad debts, payments for roaming services to foreign mobile telephone operators and certain other revenues. The regulation provided a rate of 4% in 2003 and a rate of 3.5% in 2004 and 2005. In November 2004, the Ministry of Communications announced that from January 2006 the rate of royalties payments will be reduced annually by 0.5% to a level of 1%. For 2006 the rate was 3%, for 2007 the rate was 2.5%, for 2008 the rate was 2%, for 2009 the rate was 1.5%.and it has finally been reduced to a rate of 1% in 2010. In March 2008 a public committee that was appointed by the Ministry of Communications published its recommendations which included a recommendation to cancel by 2012 the obligation of telecommunication operators to pay royalties to the State (subject to general tax reductions during the years 2008-2012). This recommendation has not yet been implemented.

#### Fair Competition and Antitrust Law

Provisions protecting Partner from anti-competitive practices can be found in our license and in the licenses of the other telecommunications operators, in the various telecommunications regulations and in the Restrictive Trade Practices Law. Our license emphasizes the principle of granting users equal access to the systems of each of the operators upon equitable terms. The Telecommunications Law also provides certain protection against disruption of telecommunications services.

The Restrictive Trade Practices Law is the principal statute concerning restrictive practices, mergers and monopolies. This law prohibits a monopoly from abusing its market position in a manner that might reduce competition in the market or negatively affect the public. The law empowers the Commissioner of Restrictive Trade Practices to instruct a monopoly abusing its market power to perform certain acts or to refrain from certain acts in order to prevent the abuse. Bezeq has been declared a monopoly in certain markets, a ruling it failed to challenge successfully. For more information see “Item 3D. Risk Factors– 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”.



The Israeli Commissioner of Restrictive Trade Practices expressed his view in the past, that the cellular telephone industry in Israel operates as an oligopoly and that the Israeli government should intervene to regulate prices. Such a finding could result in increased regulatory intervention (including with regard to tariffs and tariffing practices), the application of certain limitations on our conduct and increased litigation. See “Item 3C. Risk Factors”.

#### Regulatory Developments

The regulations regarding the international call market currently prohibit cellular operators from applying for licenses for this market. Following the Grunau Committee’s recommendations of March 2008, the Ministry of Communications announced that it would allow the cellular operators to offer international call services, subject to certain revisions in the interconnection regulations and provided that the MVNO operators, including those who are international call operators, first be allowed entry into the cellular market.

In 2004, the Ministry of Communications began authorizing the issuance of licenses to provide domestic land-line services to customers, competing with Bezeq, on a non-universal service basis. Services provided under such license should be precisely defined by the provider, should be provided to customers in a region, or regions, defined by the provider and should be provided to a defined type of customer. Under the terms of such license, the provider must demonstrate aggregate revenues of no less than NIS 50 million within 3 years from the launching of the services. The license term is 20 years. In January 2007, we were granted this license. The Ministry of Communications has promulgated regulations that, coupled with a change effected in the cellular telephone operators’ licenses, impose a uniform call and SMS interconnect tariff. In November 2004, the Ministry of Communications announced regulatory changes significantly reducing call interconnect tariffs and SMS interconnect tariffs, effective March 1, 2005, with additional reductions mandated for the coming years. Furthermore, the Ministry of Communications also indicated that it intends to start implementing a process to bring about unification of rates for calls terminating both on and off an operator’s network, and disallow charging the customer with a separate interconnect tariffs. Preliminary hearings with the cellular operators in Israel on this matter commenced in August 2005, but have been suspended. See “Item 4B. Information on the Company–Business Overview–Interconnection.”

In January 2007, the Ministry of Communications published a policy regarding VoB services. The policy, among other things, allows licensed third parties to access the infrastructure of domestic land-line operators in order to provide VoB services to customers, charging customers directly, with no need of the VoB operator to pay to the access owner any usage fees. Our domestic land-line license was amended in February 2007 to allow us to provide VoB services to the public in accordance with this policy.

In January 2007, the Ministry of Communications appointed a public commission, headed by Prof. Grunau, a professor of economics at Hebrew University, to formulate recommendations regarding the policy and the principles of competition in the Israeli telecommunications market. The issues that were examined by the commission included the structural separation of activities, such as transmission and content, including the structural separation of Bezeq; the requirement that licensed telecommunication companies provide access to their infrastructure to other companies; and the principle of convergence arrangements between cellular and land-line operators, as well as between voice service providers and video and data service providers. In March 2008 the commission published its recommendations including the following recommendations: developing a wholesale market in the land-line segment that would center around a local loop unbundling obligation, acceleration of the regulatory process required for the entry of virtual operators into the cellular market and of the WiMAX tender, and a change in the billing method for calls initiated by our subscribers to destinations abroad, following which the tariff for such calls is determined by the international operator who will pay us the regulated interconnect tariff for incoming international calls to cellular subscribers.



In August 2008, the Ministry of Communications adopted the majority of the recommendations published in March 2008 by the Grunau Committee. The recommendations adopted include recommendations: to accelerate the procedures necessary to allow the entry of MVNOs and additional infrastructure based operators to the cellular market; to publish a WiMAX frequencies tender for cellular use; to examine interconnect fees and further revise them accordingly, during 2009; to negotiate a reduction of inbound and outbound roaming tariffs with the European Union and/or members of the European Union and/or countries frequently visited by Israelis; to regulate charges for mobile-originated international calls; and to prohibit a linkage between a cellular services transaction and a handset purchase transaction. Another recommendation concerns the unbundling of Bezeq's network to be followed by alleviating some of the restrictions with respect to offering integrated packages of services currently imposed on Bezeq and its subsidiaries.

Also, in August 2008, the Israeli Government adopted resolutions in line with the Grunau Committee recommendations concerning MVNO, roaming tariffs and interconnect fees, as well as a resolution directing the Ministry of Communication to examine ways to encourage the entry into the cellular market of additional operators, including by providing certain reliefs and incentives.

Effective April 2008, our license was amended shortening the maximum commitment period in the agreements with private customers to 18 months, and to offer other effective rate plans without a commitment period.

Several new regulations directly affecting our business operations entered into effect in January 2009:

¶ In 2008, the Consumer Protection Law was amended in a manner that obligates us, commencing January 2009, to terminate certain services (excluding voice services) we provide to our subscribers during a predefined period at the end of that period, unless the price for the services to be provided after the end of the predefined period has been set in advance or we have received the subscriber's consent to continue and provide these services.

¶ In October 2008, our license was further amended effective December 31, 2008, obligating us to set fixed tariffs for certain services determined by the Ministry of Communications in limited period non-business customer agreements and prohibiting us from raising tariffs during the agreement period.

¶ Our license was amended, effective January 2009, to require us to offer tariff plans based on billing units reduced from 12 seconds to no longer than one second. Such regulation may adversely affect our business and operating results.

In addition, after conducting a lengthy hearing process, the Ministry of Communications amended the conditions of the licenses of all the cellular telecommunication companies in Israel, whereby as of November 1, 2009, cellular telecommunication operators are prohibited from linking the sale of handsets to the provision of various benefits regarding cellular services, including air time. This amendment to the license also allows subscribers that purchased their handsets elsewhere to benefit from the same airtime benefits as subscribers that purchased their handsets from the Company. We are currently in the process of examining the implications of this amendment to our license on our business and whether our business and results of operations could be materially adversely affected.

The Ministry of Communications also concluded after conducting a hearing process based on one of the Grunau Committee recommendations of March 2008 (described above) that effective July 31, 2010, cellular customers, like fixed-line customers will be charged international call rates that will be determined by the international operators and the international operators shall pass onto the cellular operators the charges for interconnect to the cellular networks, that will be determined in the regulations. Customers will no longer be charged for airtime by the cellular operators.



The Israeli Parliament has approved the first reading of a proposed law that would provide cellular subscribers with the option to establish a monthly maximum shekel amount for their total post paid telecommunication services. Once the subscriber would reach this maximum amount, he will no longer be able to receive any services except those that are given free of charge. The proposed law has been referred to the appropriate Parliament committee. If such a law would be adopted and a significant number of subscribers requested such an option, this could have a substantial effect on our revenues.

The Ministry of Communications is also conducting hearings and examinations on various matters related to our business, such as:

¶The Ministry of Communications is evaluating the cost of roaming and may introduce new regulations that would limit fees charged by Israeli cellular companies for calls made by the customers of foreign network operators while they are in Israel and using our network, as well for calls made by our own customers using their handsets abroad. Recently, the Ministry of Communications has requested additional and more specific international roaming data from the cellular companies. Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.

¶The Ministry of Communications and the Council for Cable TV and Satellite Broadcasting have published a public hearing in order to determine whether there is a need to regulate the provision of video services over the internet which might compete with multiple channel television services.

¶On August 31, 2009, the Ministry of Communications announced that it would conduct a public hearing process regarding the regulation of broad band access services over cellular networks. Currently, a customer who obtains broad band access services over a cellular network must purchase both the broad band infrastructure and the ISP services from the cellular operator (which has itself entered into an agreement with an ISP provider), whereas a customer who obtains broad band access services over a fixed line network can purchase the broad band infrastructure and the ISP services from different vendors. The Ministry of Communications is examining the current method by which broad band access services based on cellular networks are provided to customers and has asked for public comments with regard to the current framework, as well as regarding possible alternative regulatory frameworks, by October 15, 2009. As a result of this hearing, new regulations regarding broad band access services over cellular services could be introduced. We cannot assure you that, if introduced, such regulations would not adversely affect our business or operating results. See "Risk Factors – 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".

¶The Ministry of Communications is conducting a hearing after which the Bezeq group may receive permission to market bundled services of all the group's companies. This will allow Bezeq to offer customers a full range of bundled telecommunication services in one transaction, including landline services, cellular services, international call services, broadband access, broadband internet services and multi channel television services, an offer that the Company cannot compete with including the ability to offer its subscribers competitive multi channel television like the services offered by YES satellite services. Such an offer may be attractive to existing subscribers and to potential subscribers of the Company in a manner that would decrease the recruitment of new subscribers for new products of the Company or increase the churn of existing subscribers.

¶In September 2009, the Ministry of Communications began conducting a new hearing to examine the interconnect tariffs for completing a call or transferring SMSs to a cellular network.

- The Ministry of Communications has begun conducting a new hearing to address various consumer issues in order to increase transparency and the consumers' ability to choose telecommunication services. We are currently in the process of examining the matter and cannot yet assess the impact this will have on the various areas of our business if our license is amended as a result of the hearing.

#### Change in Spectrum Allocation in the West Bank

We received notification from the Civil Administration in Judea and Samaria (also known as the West Bank) signed by the Ministry of Communications, of its intention to implement a change in the allocation of some of the spectrum

previously allocated to us under our general license for the provision of cellular services in the West Bank. See "Risk Factors – Risks Related to the Regulations of our Industry – We may be required to terminate the use of certain spectrum or to share with another operator some of the spectrum we are currently using on an exclusive basis, or to pay additional fees for the use of our current spectrum. These requirements may adversely affect our network quality and capacity as well as our results of operations."

#### Integrated Tender Committee For UMTS Frequency Allocation For An Additional Cellular Operator

A tender committee that was appointed by the Ministry of Communications to allocate UMTS frequency for an additional cellular operator recently published general principles for the tender, which are not yet final. According to the principles published, the tender will include additional UMTS spectrum for two additional operators; participation will be allowed for new operators and MIRS communication Ltd, (existing cellular operators will not be allowed to participate) and the winners shall be awarded various benefits and leniencies such as rebates on spectrum and license fees and exemptions from royalty payments. In addition, the winner will be allowed gradual geographic deployment of the infrastructure over a number of years.

The tender committee will examine the possibility of allowing the winner to pay interconnect fees in accordance with the lowest rate set forth in the regulations, or will be set in the future, from the beginning of its operation as a cellular operator. Lastly, the Ministry of Communications will consider allowing the winner to provide MRT services by using telecommunication infrastructure of existing domestic operators, (for example through site sharing and national roaming).

#### Instruction from the Ministry of Communications Regarding "Network Neutrality"

The Ministry of Communications has published an instruction to cellular operators and ISPs in Israel to maintain "network neutrality" by avoiding any limitation on applications or protocol usage on the Internet or any other action which might be considered discriminatory against content providers or which might harm consumers. We are currently reviewing this instruction to determine what impact, if any, it may have on our business.

Hot-Net, a wholly-owned unit of HOT, has recently applied for a license to provide ISP services in Israel. The Ministry of Communications has issued a hearing to HOT to consider allowing HOT to offer services bundles, including ISP services, to be provided by Hot Net. We are not able to predict the regulatory conditions, if any, that the Ministry of Communications will impose on HOT and are therefore unable to assess the impact that this development may have on our ISP business.

#### Entry of MVNO Operators

MVNOs, or mobile virtual network operators, are mobile telecommunications operators that do not own their own spectrum and usually do not have their own physical network infrastructure. Instead, MVNOs have business arrangements with existing cellular operators to use their infrastructure and network for the MVNOs' own customers. The introduction of the operation of MVNOs into the Israeli mobile telecommunications market could increase competition, which may adversely affect our business, revenues and results of operations.

The Grunau Committee, a public commission appointed by the Ministry of Communications to review various issues in the Israeli communications market, published its recommendations in March 2008 and recommended accelerating the regulatory process required for the entry of MVNOs into the mobile telecommunications market. In August 2008, the Ministry of Communications adopted most of the committee's recommendations and in January 2009 began conducting hearings regarding the granting of licenses that regulate the activities of MVNO operators. In November 2009, the Ministry of Communications published a draft MVNO license.

In July 2009, the Financial Arrangements law was adopted by the Israeli Parliament, which includes an amendment of the Communications Law (Telecommunications and Broadcasting), 1982 regarding the entry of MVNOs into the mobile telecommunications market. The amendment authorizes the Ministry of Communications to grant an MVNO license and sets out the Ministry of Communications' obligation to determine the terms of granting an MVNO license by October 1, 2009. According to the amendment, in case the MVNO does not reach a commercial agreement with a

mobile telephone operator within six months of its application, and if the Ministry of Communications and the Ministry of Finance are convinced that the terms of use that the mobile telephone operator has requested are unreasonable, then the Ministry of Communications will instruct the mobile telephone operator to allow the MVNO to use their network and shall set the tariffs and terms of use.

In January 2010 the Ministry of Communications published its decision regarding MVNOs and published regulations regarding this matter. The regulations also allow telecommunications companies, subject to certain conditions, to apply for MVNO licenses and after reaching a commercial agreement with a mobile telephone operator, to begin providing cellular services. The regulations also impose certain conditions on related companies of cellular companies that apply for an MVNO license. The impact of these developments, may have a material effect on our competitive position and thus our business and operating results.

#### Number Portability

In March 2005, the Telecommunications Law was amended to require the Ministry of Communications to implement a mobile number portability plan and, separately, a fixed number portability plan, in each case by September 2006. The number portability plan permits subscribers in Israel to change their service provider to another network operator while retaining the same telephone number.

The number portability plan mandated by law was launched by all telecommunications operators on December 1, 2007. The Ministry has notified us as well as the other operators that it is considering imposing monetary sanctions on relevant telecommunication license holders, including us for the delay. We submitted our position to the Ministry stating that the delay was a result of the Ministry's failure to adequately plan and design the number portability plan. As a result of this dispute, we may be exposed to substantial monetary sanctions and further legal claims.

#### WiMAX Bandwidth

In February 2009, the Ministry of Communications published a policy regarding the allocation of bandwidth in the WiMAX spectrum and establishing a broadband wireless access network using the WiMAX technology. WiMAX is a technology that aims to provide wireless data over long distances, in a variety of different methods, from point to point links to full mobile type access. The Ministry of Communications' policy reflects its decision that incumbent cellular operators would not currently be allowed to participate in the WIMAX 2.5 GHz frequency tender, which will be open mainly to new entrants to the telecommunications market. If WiMAX frequencies are made available only to new entrants to the telecommunications market, our ability to compete would be impaired. If such frequencies are not available to us in the future, it may harm our ability to migrate to the next generation of GSM technology, such as LTE.

#### Liberalization of Handset Market

The Ministry of Communication announced in October 2005 its plans to increase competition in the market for selling cellular handsets by opening the market to competitors. We are unable at this point to assess how the market liberalization in the handset market would affect us, although we believe that such competition will not have a material effect on our business.

#### Accessibility for Disabled Persons

The Company has been notified that the Labour, Welfare and Health Committee of the Israeli Parliament is conducting proceedings regarding the enactment of accessibility regulations based on the Equality Law for Disabled Persons. Such regulations will address issues including physical accessibility to our customer service centers as well as to information such as forms, pamphlets and telephone customer services. We believe that the costs required to comply with such regulations may be significant. The regulations under discussion would allow relief to disabled persons against non-compliant companies of NIS 50,000 without having to prove damages and may provide grounds for class actions.

Our Mobile Telephone License

On April 7, 1998, the Ministry of Communications granted to us a general license to establish and operate a mobile telephone network in Israel. The Ministry of Communications amended our license in February 2002 to include the provision of 3G services by us and extended our mobile telephone license through 2022.

Under the terms of the amended license, we have provided a \$10 million guarantee to the State of Israel to secure the Company's adherence to the terms of the license.

On March 9, 2005, our license was further amended. The principal elements of this amendment are as follows:

Our founding shareholders and their approved substitutes must hold, in the aggregate, at least 26% of each of our means of control. Furthermore, the maintenance of at least 26% of our means of control by our founding shareholders and their approved substitutes allows Partner to be protected from a license breach that would result from a transfer of shares for which the authorization of the Ministry of Communications was required, but not obtained.

Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued and outstanding share capital and of each of our means of control. "Israeli entities" are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by individuals who are citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Israeli Prime Minister or Minister of Communications.

At least 10% of our Board of Directors must be appointed by Israeli entities, as defined above, provided that if the Board of Directors is comprised of up to 14 members, only one such director must be so appointed, and if the Board of Directors is comprised of between 15 and 24 members, only two such directors must be so appointed.

Matters relating to national security shall be dealt with only by a Board of Directors committee that has been formed for that purpose. The committee includes at least 4 members, of which at least one is an external director. Only directors with the required clearance and those deemed appropriate by Israel's General Security Service may be members of this committee. Resolutions approved by this committee shall be deemed adopted by the Board of Directors.

The Ministry of Communications shall be entitled to appoint an observer to the Board of Directors and its committees, subject to certain qualifications and confidentiality undertakings.

In March 2007, our license was further amended. Among the changes was a requirement not to provide access to services, whether from Partner or a content supplier, if the subscriber has not specifically requested access to such service and for which there is a significant charge to the subscriber. We must also inform subscribers that they have the ability to block access to such services.

Following a lengthy hearing process, the Ministry of Communications has amended the license of each Israeli cellular operator in a manner that prohibits the operators as of November 1, 2009, from linking the sale of handsets to the provision of various benefits regarding cellular services, including air time. See "Regulatory Developments" above.

Term. Our license authorizes us on a non-exclusive basis to establish and operate a mobile telephone network in Israel. A mobile telephone network is a wireless telephone network through which mobile telephone service is provided to the public. Our license allocates to us specified frequencies and telephone numbers. Our license was originally valid for a period of ten years (until April 2008), but has been extended until 2022.

The license may be extended for an additional six-year period upon our request to the Ministry of Communications, and a confirmation from the Ministry of Communications that we have met the following performance requirements:

observing the provisions of the Telecommunications Law, the Wireless Telegraphy Ordinance, the regulations and the provisions of our license;

acting to continuously improve our mobile telephone services, their scope, availability, quality and technology, and that there has been no act or omission by us harming or limiting competition in the mobile telephone sector;





having the ability to continue to provide mobile telephone services of a high standard and to implement the required investments in the technological updating of our system in order to improve the scope of such services, as well as their availability and quality; and

- using the spectrum allocated to us efficiently, compared to alternative applications.

At the end of this additional six-year period, we may request renewal of our license for successive six-year periods thereafter, subject to regulatory approval.

**Contracting with Customers.** Pursuant to our license, our standard agreement with customers must receive the Ministry of Communications' approval. We have submitted our standard agreement to the Ministry of Communications for approval pursuant to our license. To date, we have not received any comments from the Ministry of Communications regarding this agreement.

**Tariffs.** Our license requires us to submit to the Ministry of Communications our tariffs (and any changes in our tariffs) before they enter into effect. Our license allows us to set and change our tariffs for outgoing calls and any other service without approval of the Ministry of Communications. However, the Ministry of Communications may intervene in our tariffs if it finds that our tariffs unreasonably harm consumers or competition.

**Payments.** Our license specifies the payments we may charge our subscribers. These include one-time installation fees, fixed monthly payments, airtime fees, payments for the use of other telecommunication systems, payments for handset maintenance and payments for additional services. In some of our tariff plans we have chosen to charge only for airtime and use of services. See "Item 4B. Information on the Company—Business Overview—Services and Products—Tariff Plans."

**Interconnection.** Like the licenses of Pelephone, Cellcom and MIRS, our license requires that we interconnect our mobile telephone network to other telecommunications networks operating in Israel, including that of Bezeq and other domestic land-line operators, the other mobile telephone operators and the international operators.

Conversely, we must allow other network operators to interconnect to our network. See "Item 4B. Information on the Company—Business Overview—Interconnection."

**Service Approval.** The Ministry of Communications has the authority to require us to submit for approval details of any of our services (including details concerning tariffs). In addition, we are required to inform the Ministry of Communications prior to the activation of any service on a specified list of services.

**Access to Infrastructure.** The Ministry of Communications has the power to require us, like the other telephone operators in Israel, to offer access to our network infrastructure to other operators. We may also be required to permit other operators to provide value-added services using our network.

**Universal Service.** We are required to provide any third generation service with the same coverage as our existing network within 24 months from the commercial launch of each such service.

**Territory of License.** Our license authorizes us to provide mobile telephone services within the State of Israel as well as offer roaming services outside the State of Israel. In May 2000, we were also granted a license from the Israeli Civil Administration, to provide mobile services to the Israeli populated areas in the West Bank. The license is effective until April 7, 2013. The provisions of the general license described above, including as to its extension, generally apply to this license, subject to certain modifications. We believe that we will be able to receive an extension to this license upon request.

License Conditions. Our license imposes many conditions on our conduct. We must at all times be a company registered in Israel. Our license may not be transferred, mortgaged or attached without the prior approval of the Ministry of Communications. We may not sell, lease or mortgage any of the assets which serve for the implementation of our license without the prior approval of the Ministry of Communications, other than in favor of a banking corporation which is legally active in Israel, and in accordance with the conditions of our license.

Our license provides that no direct or indirect control of Partner may be acquired, at one time or through a series of transactions, and no means of control may be transferred in a manner which results in a transfer of control, without the consent of the Ministry of Communications. Furthermore, no direct or indirect holding of 10% or more of any means of control may be transferred or acquired at one time or through a series of transactions, without the consent of the Ministry of Communications. In addition, no shareholder of Partner may permit a lien to be placed on shares of Partner if the foreclosure on such lien would cause a change in the ownership of 10% or more of any of Partner's means of control unless such foreclosure is made subject to the consent of the Ministry of Communications. For purposes of our license, "means of control" means any of:

- voting rights in Partner;
- the right to appoint a director or managing director of Partner;
- the right to participate in Partner's profits; or
- the right to share in Partner's remaining assets after payment of debts when Partner is wound up.

Each of our ordinary shares and ADSs is considered a means of control in Partner.

In addition, Partner, any entity in which Partner is an Interested Party, as defined below, an Office Holder, as defined below, in Partner or an Interested Party in Partner or an Office Holder in an Interested Party in Partner may not be a party to any agreement, arrangement or understanding which may reduce or harm competition in the area of mobile telephone services or any other telecommunications services.

In connection with our initial public offering, our license was amended to provide that our entering into an underwriting agreement for the offering and sale of shares to the public, listing the shares for trading, and depositing shares with the depositary or custodian will not be considered a transfer of any means of control, as defined below. Pursuant to the amendment, if the ADSs (or other "traded means of control," that is, means of control which have been listed for trade or offered through a prospectus and are held by the public) are transferred or acquired in breach of the restrictions imposed by the license with respect to transfer or acquisition of 10% or more of any means of control, we must notify the Ministry of Communications and request the Ministry's consent within 21 days of learning of the breach. In addition, should a shareholder, other than a founding shareholder, breach these ownership restrictions, or provisions regarding acquisition of control or cross-ownership or cross-control with other mobile telephone operators or shareholdings or agreements which may reduce or harm competition, its shareholdings will be marked as exceptional shares and will be converted into dormant shares, as long as the Ministry's consent is required but not obtained, with no rights other than the right to receive dividends and other distributions to shareholders, and to participate in rights offerings.

The dormant shares must be registered as dormant shares in our share registry. Any shareholder seeking to vote at a general meeting of our shareholders must notify us prior to the vote, or, if the vote is by deed of vote, must so indicate on the deed of vote, whether or not the shareholder's holdings in Partner or the shareholder's vote requires the consent of the Ministry of Communications due to the restrictions on transfer or acquisition of means of control, or provisions regarding cross-ownership or cross-control with other mobile telephone operators or shareholders. If the shareholder does not provide such certification, his instructions shall be invalid and his vote not counted.

The existence of shareholdings which breach the restrictions of our license in a manner which could cause them to be converted into dormant shares and may otherwise provide grounds for the revocation of our license will not serve in and of themselves as the basis for the revocation of our license so long as:

the founding shareholders or their approved substitutes of Partner continue to hold in the aggregate at least 26% of the means of control of Partner;

- our Articles of Association include the provisions described in this paragraph;
- we act in accordance with such provisions;

our Articles of Association provide that an ordinary majority of the voting power at the general meeting of Partner is entitled to appoint all the directors of Partner other than external directors.

The amendment of our license providing for the dormant share mechanism does not apply to our founding shareholders.

The provisions contained in the amendment to our license are also contained in our Articles of Association. In addition, our Articles of Association contain similar provisions in the event the holdings of shares by a shareholder breaches ownership limits contained in our license.

Revoking, limiting or altering our license. Our license contains several qualifications that we are required to meet. These conditions are designed primarily to ensure that we maintain at least a specified minimum connection to Israel. Other eligibility requirements address potential conflicts of interest and cross-ownership with other Israeli telecommunications operators. The major eligibility requirements are set forth below. A failure to meet these eligibility requirements may lead the Ministry of Communications to revoke, limit or alter our license, after we have been given an opportunity and have failed to remedy it.

- Founding shareholders or their approved substitutes must hold at least 26% of the means of control of Partner.

Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued share capital and of each of our means of control.

- The majority of our directors, and our general manager, must be citizens and residents of Israel.

Neither the general manager of Partner nor a director of Partner may continue to serve in office if he has been convicted of certain legal offenses.

No trust fund, insurance company, investment company or pension fund that is an Interested Party in Partner may: (a) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator without having obtained a permit to do so from the Ministry of Communications, or (b) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator in accordance with a permit from the Ministry, and in addition have a representative or appointee who is an Office Holder in a competing mobile radio telephone operator, unless it has been legally required to do so, or (c) hold, either directly or indirectly, more than 10% of any means of control in a competing mobile radio telephone operator, even if it received a permit to hold up to 10% of such means of control.

No trust fund, insurance company, investment company or a pension fund that is an Interested Party in a competing mobile radio telephone operator may: (a) hold, either directly or indirectly, more than 5% of any means of control in Partner, without having obtained a permit to do so from the Ministry of Communications; or (b) hold, directly or indirectly, more than 5% of any means of control in Partner in accordance with a permit from the Ministry of Communications, and in addition have a representative or appointee who is an Office Holder in Partner, unless it has been legally required to do so; or (c) hold, either directly or indirectly, more than 10% of any means of control in Partner, even if it received a permit to hold up to 10% of such means of control.

Partner, an Office Holder or Interested Party in Partner, or an Office Holder in an Interested Party in Partner does not control a competing mobile radio telephone operator, is not controlled by a competing mobile radio telephone operator, by an Office Holder or an Interested Party in a competing mobile radio telephone operator, by an Office Holder in an Interested Party in a competing mobile radio telephone operator, or by a person or corporation that controls a competing mobile radio telephone operator.



Our license may also be revoked, limited or altered by the Ministry of Communications if we have failed to uphold our obligations under the Telecommunications Law, the Wireless Telegraphy Ordinance or the regulations, or have committed a substantial breach of the license conditions. Examples of the principal undertakings identified in our license in this connection are:

- We have illegally ceased, limited or delayed any one of our services;
- Any means of control in Partner or control of Partner has been transferred in contravention of our license;
- We fail to invest the required amounts in the establishment and operation of the mobile radio telephone system in accordance with our undertakings to the Ministry of Communications;
- We have harmed or limited competition in the area of mobile radio telephone services;

▲ receiver or temporary liquidator is appointed for us, an order is issued for our winding up or we have decided to voluntarily wind up; or

¶ Partner, an Office Holder in Partner or an Interested Party in Partner or an Office Holder in an Interested Party of Partner is an Interested Party in a competing mobile radio telephone operator or is an Office Holder in a competing mobile radio telephone operator or in an interested party in a competing mobile radio telephone operator without first obtaining a permit from the Ministry of Communications to do so or has not fulfilled one of the conditions included in such permit. See “Item 4B. Information on the Company–Business Overview–Regulation–Our Permit Regarding Cross Ownership.”

In addition, our amended license, like the licenses of our competitors, provides that if we participate in a future tender for a mobile telecommunications license, we may be required by the terms of a new tender, if we win such tender, to transfer our network to another operator according to terms which the Ministry of Communications may decide upon and to cease providing mobile telephony services.

Change in license conditions. Under our license, the Ministry of Communications may change, add to, or remove conditions of our license if certain conditions exist, including:

- ▲ a change has occurred in the suitability of Partner to implement the actions and services that are the subject of our license.
- ▲ a change in our license is required in order to ensure effective and fair competition in the telecommunications sector.
- ▲ a change in our license is required in order to ensure the standards of availability and grade of service required of Partner.
- A change in telecommunications technology justifies a modification of our license.
- ▲ a change in the electromagnetic spectrum needs justifies, in the opinion of the Ministry of Communications, changes in our license.
- Considerations of public interest justify modifying our license.
- A change in government policy in the telecommunications sector justifies a modification of our license.



- A change in our license is required due to its breach by Partner.

During an emergency period, control of Partner's mobile radio telephone system may be assumed by any lawfully authorized person for the security of the State of Israel to ensure the provisions of necessary service to the public, and some of the spectrum granted to us may be withdrawn. In addition, our license requires us to supply certain services to the Israeli defense and security forces. Furthermore, certain of our senior officers are required to obtain security clearance from Israeli authorities.

For the purposes of this discussion, the following definitions apply:

“Office Holder” means a director, manager, company secretary or any other senior officer that is directly subordinate to the general manager.

“Control” means the ability to, directly or indirectly, direct the activity of a corporation, either alone or jointly with others, whether derived from the governing documents of the corporation, from an agreement, oral or written, from holding any of the means of control in the corporation or in another corporation, or which derives from any other source, and excluding the ability derived solely from holding the office of director or any other office in the corporation. Any person controlling a subsidiary or a corporation held directly by him will be deemed to control any corporation controlled by such subsidiary or by such controlled corporation. It is presumed that a person or corporation controls a corporation if one of the following conditions exist: (1) such person holds, either directly or indirectly, fifty percent (50%) or more of any means of control in the corporation; (2) such person holds, either directly or indirectly, a percentage of any means of control in the corporation which is the largest part in relation to the holdings of the other Interested Parties in the corporation; or (3) such person has the ability to prevent the taking of business decisions in the corporation, with the exception of decisions in the matter of issuance of means of control in a corporation or decisions in the matters of sale or liquidation of most businesses of the corporation, or fundamental changes of these businesses.

“Controlling Corporation” means a company that has control, as defined above, of a foreign mobile radio telephone operator.

“Interested Party” means a person who either directly or indirectly holds 5% or more of any type of means of control, including holding as an agent.

#### Our Permit Regarding Cross Ownership

Our license generally prohibits cross-control or cross-ownership among competing mobile telephone operators without a permit from the Ministry of Communications. In particular, Partner, an Office Holder or an Interested Party in Partner, as well as an Office Holder in an Interested Party in Partner may not control or hold, directly or indirectly, 5% or more of any means of control of a competing mobile radio telephone operator. Our license also prohibits any competing mobile radio telephone operator or an Office Holder or an Interested Party in a competing mobile radio telephone operator, or an Office Holder in an Interested Party in a competing mobile radio telephone operator or a person or corporation that controls a competing mobile radio telephone operator from either controlling, or being an Interested Party in us.

However, our license, as amended on April 14, 2002 also provides that the Ministry of Communications may permit an Interested Party in Partner to hold, either directly or indirectly, 5% or more in any of the means of control of a competing mobile radio telephone operator if the Ministry of Communications is satisfied that competition will not be harmed, and on the condition that the Interested Party is an Interested Party in Partner only by virtue of a special calculation described in the license and relating to attributed holdings of shareholders deemed to be in control of a corporation.

#### Other Licenses

Domestic Land-line License. In January, 2007, the Ministry of Communications granted Partner Fixed Communication Solutions Limited Partnership, which is fully owned by the Company, a license for the provision of domestic land-line telecommunications services. The license expires in twenty years but may be extended by the Ministry of Communications for successive periods of ten years provided that the licensee has complied with the

terms of the license and has acted consistently for the enhancement of telecom services and their enhancement. The licensee deposited a bank guarantee in the amount of NIS 10 million with the Ministry of Communications upon receiving the license which shall be used to secure the licensee's obligations under the License. The general conditions of the mobile telephone license described above, generally apply to this license, subject to certain modifications. In addition to any 10% share transfer requiring the prior approval of the Ministry of Communications, the license additionally requires approval prior to a third party acquiring the ability to exercise significant influence over us. In this context, holding 25% of our means of control is presumed to confer significant influence. The license was amended in February 2007 to grant us the right to offer Voice Over Broadband ("VoB") services using the infrastructure of Bezeq and HOT to access customers and to provide them with land-line telephony service. The License was further amended in July 2007 to incorporate the provision of transmission and data communications services that were previously provided for under a transmission license that was granted in July 2006. In March 2009, we were also granted a domestic land-line license to provide land-line services to the Israeli populated areas in the West Bank. The license is effective until March 2019.

ISP License. In March 2001, we received a special license granted by the Ministry of Communications, allowing us through our own facilities to provide internet access to land-line network customers. The license was renewed in April 2008 and is valid until April 2013. We began supplying commercial ISP services beginning in January 2009.

NTP License. In February 2007 we received a special license granted by the Ministry of Communications allowing us to provide certain telecom services, including providing and installing equipment and cabling, representing the subscriber with local fixed operators, and establishing and operating control facilities within a subscriber's premises. The license is valid until February 2012.

Other Licenses. The Ministry of Communications has granted us a trade license pursuant to the Wireless Telegraphy Ordinance. This license regulates issues of servicing and trading in equipment, infrastructure and auxiliary equipment for our network. We have also been granted a number of encryption licenses that permit us to deal with means of encryption, as provided in the aforementioned licenses, within the framework of providing mobile radio telephone services to the public.

#### Network Site Permits

##### Permits of the Ministry of Environmental Protection

On January 1, 2006, the Non-Ionizing Radiation Law (5766-2006), which replaced the Pharmacists (Radioactive Elements and Products) Regulations, 1980 regarding matters that pertain to radiation from cellular sites, was enacted. This law defines the various powers of the Ministry of Environmental Protection as they relate, inter alia, to the grant of permits for network sites and sets standards for permitted levels of non-ionizing radiation emissions and reporting procedures. Pursuant to this law, most of which entered into effect on January 1, 2007, a request for an operating permit from the Ministry of Environmental Protection with respect to either new sites or existing sites would require a building permit for such site(s). The Ministry of Environmental Protection has adopted the International Radiation Protection Agency's standard as a basis for the consents it gives for the erection and operation of our antennas. This standard is an international standard based upon a number of years of scientific study.

If we will continue to face difficulties in obtaining building permits from the local planning and building committee, we may fail to obtain also operation permits from the Ministry of Environmental Protection. Operation of a network site without a permit from the Ministry of Environmental Protection may result in criminal and civil liability to us or to our officers and directors.

##### Local Building Permits

The Planning and Building Law requires that we receive a building permit for the construction of most of our antennas. The local committee or local licensing authority in each local authority is authorized to grant building permits, provided such permits are in accordance with National Building Plan No. 36 which came into effect on June 15, 2002. The local committee is made up of members of the local municipal council. The local committee is authorized to delegate certain of its powers to subcommittees on which senior members of the local authority may sit.

The local committee examines the manner in which an application for a building permit conforms to the plans applying to the parcel of land that is the subject of the application, and the extent to which the applicant meets the requirements set forth in the Planning and Building Law. The local committee is authorized to employ technical, vista, and aesthetic considerations in its decision-making process. The local committee may grant building permits that are conditioned upon the quality of the construction of the structure, the safety of flight over the structure, and the external appearance of the structure. Every structure located on a certain parcel of land must satisfy the requirements and definitions set forth in the building plan applicable to such parcel.



On January 3, 2006, the National Council for Planning and Building added a new requirement for obtaining a building permit for network sites: the submission of an undertaking to indemnify the local committee for claims relating to the depreciation of the surrounding property value as a result of the construction or existence of the antenna.

A decision by a local committee not to grant a building permit may be appealed to the District Appeals Committee. A person harmed by the ruling of the District Appeals Committee may have such ruling examined judicially by means of an administrative petition to the District Court sitting as an Administrative Affairs Tribunal.

#### National Building Plan No. 36

National Building Plan No. 36 which came into effect on June 15, 2002 regulates the growth of telecommunications infrastructure in Israel. Chapter A of National Building Plan No. 36 sets forth the licensing, view, flight safety and electromagnetic radiation requirements for the construction of mobile radio telephone infrastructure. National Building Plan No. 36 also adopts the radiation emission standards set by the International Radiation Protection Agency which were also previously adopted by the Ministry of Environmental Protection. We believe that we currently comply with these standards.

Under the Non-Ionizing Radiation Law, the National Council for Planning and Building was granted the power to determine the level of indemnification for reduction of property value to be undertaken as a precondition for a cellular company to obtain a building permit for a new or existing network site. As a result, the National Council for Planning and Building has decided that until National Building Plan 36 is amended to reflect a different indemnification amount, cellular companies will be required to undertake to indemnify the building and planning committee for 100% of all losses resulting from claims against the committee. Thus, at present, in order to obtain a building permit for a new or existing network site, we must provide full indemnification for the reduction of property value.

We cannot predict whether the legal requirement to provide full indemnification will be adopted in the amended National Building Plan 36, nor can we predict when the National Building Plan 36 will be amended. These recent developments may have a material adverse effect on our financial condition and results of operations, as well as plans to expand and enhance network coverage. For more information, see “Item 3D. Risk Factors – In connection with certain building permits, we may also be required to indemnify certain 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, which may have a material adverse effect on our financial condition and results of operations”.

#### Other Approvals

The construction of our antennas may be subject to the approval of the Civil Aviation Administration which is authorized to ensure that the construction of our antennas does not interfere with air traffic, depending on the height and location of such antennas. The approval of the Israeli Defense Forces is required in order to coordinate site frequencies so that our transmissions do not interfere with the communications of the Israel Defense Forces.

We, like 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 from the Ministry of Communications an approval to connect the repeaters to our communications network. We have also received from the Ministry of Environmental Protection, the permits that are necessary for the 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 if in the future the courts or the relevant regulator determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability 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 land-line services effectively.

We have received approval from the Ministry of Communications for selling and distributing all of the handsets and other terminal equipment we sell. The Ministry of Environmental Protection also has authority to regulate the sale of handsets in Israel, and under the new Non-Ionizing Radiation Law, certain types of devices, which are radiation sources, including cellular handsets, have been exempted from requiring an approval from the Ministry of Environmental Protection so long as the radiation level emitted during the use of such handsets does not exceed the radiation level permitted under the Non-Ionizing Radiation Law. Since June 15, 2002, we have been required to provide information to purchasers of handsets on the Specific Absorption Rate (“SAR”) levels of the handsets as well as its compliance with certain standards pursuant to a regulation under the Consumer Protection Law. SAR levels are a measurement of non-ionizing radiation that is emitted by a hand-held cellular telephone at its specific rate of absorption by living tissue. While, to the best of our knowledge, the handsets that we market comply with the applicable laws that relate to acceptable SAR levels, we rely on the SAR published by the manufacturer of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers’ approvals refer to a prototype handset and not for each and every handset, we have no information as to the actual SAR level of each specific handset and throughout its lifecycle.

Under a December 2005 amendment to this procedure, in the event that the SAR level is not measured after the repair of a handset, the repairing entity is required to notify the customer by means of a label affixed to the handset that the SAR may have been altered following the repair, in accordance with the provisions relating to the form of such label set forth in the procedure. A consultant had been retained by the Ministry of Communications to formulate a recommendation regarding the appropriate manner to implement the procedure for repairing handsets but to date the Ministry of Communications has not yet issued any guidelines and given the continued delay we are informing our customers that there may be changes in the SAR levels.

In November 2005, a new procedure was adopted by the Ministry of Communications with regard to the importation, marketing, and approval for 2G and 2.5G handsets. Prior to the implementation of the new procedure, suppliers of 2G and 2.5G handsets in Israel were required to obtain an interim, non-binding approval of the handset type from the relevant cellular telephone operators before receiving final approval from the Ministry of Communications to supply such handsets in Israel to such operators. Under the new procedure, handsets that have already received the internationally recognized Global Certification Forum approval prior to their importation into Israel are now exempt from the requirement of receiving an interim, non-binding approval from the relevant cellular telephone operators in Israel. This could expose us to the risk that handsets not reviewed and approved by us may interfere with the operation of our network. The new procedures described above do not apply to 3G handsets, which still require cellular telephone operators to grant an interim, non-binding approval to the Ministry of Communications before the Ministry grants its final approval in all circumstances.

In addition, this procedure also called for repaired handsets to comply with all applicable standards required for obtaining handset type approval, including standards relating to the safety, electromagnetic levels, and SAR levels.

In June 2007, the Ministry of Communications granted our subsidiary, Partner Land-Line Communications Solutions LLP, the rights to use public land for the purpose of deploying and maintaining our transmission network, subject to the approval by the relevant local planning committees of plans for the deployment of the transmission network. As a result of these rights, Partner Land-Line Communications Solutions LLP, is exempt from applying for a building permit under the Planning and Building Law in connection with the deployment and maintenance of our transmission network on public land.



#### 4C. Organizational Structure

We currently have four wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., an Israeli corporation, Partner Net Ltd, an Israeli corporation, Partner Land-Line Communications Solutions LLP, an Israeli limited partnership, and Partner Business Communications Solutions, LLP, an Israeli limited partnership. Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner of each of the limited partnerships. On October 28, 2009, we became a subsidiary of Scailex, See “Item 3D. Risk Factors – 46.23% of our shares and voting rights are indirectly controlled by a single shareholder”.

#### 4D. Property, Plant and Equipment

##### Headquarters

We lease our headquarter facilities in Rosh Ha-ayin, Israel, in three sites with a total of approximately 37,866 square meters as well as two parking lots with a total of approximately 11,750 square meters. The leases for each site have different lengths and specific terms, but we believe that our current office facilities are adequate for the foreseeable future, and that we will be able to extend the leases or obtain alternate or additional facilities, if needed, on acceptable commercial terms. We recently extended the lease agreement. See “Item 7B. Related Party Transactions”.

We lease three call centers in Haifa, as well as in Jerusalem and other locations in Israel. The leases for each site have different lengths and specific terms, but we believe that our current call center facilities are adequate for the foreseeable future, and that we will be able to extend the leases or obtain alternate or additional facilities, if needed, on acceptable commercial terms.

##### Network

For a description of our telecommunications network, see “Item 4B. Business Overview – Our Network” above.

We lease most of the sites where our mobile telecommunications network equipment is installed throughout Israel. At December 31, 2009, we had 2,502 network sites (including micro-sites). The lease agreements relating to our network sites are generally for periods of two to three years. We have the option to extend the lease periods up to ten years (including the original lease period).

The erection and operation of most of these network sites requires building permits from local or regional zoning authorities, as well as a number of additional permits from governmental and regulatory authorities, and we have had difficulties in obtaining some of these permits. Difficulties obtaining required permits could continue and therefore affect our ability to maintain cell network sites. 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. See “Item 3D. Risk Factors – Risks Relating to the Regulation of Our Industry” and “Item 4B. Business Overview – Regulation”.

Land-lines. In addition to our cellular network, we possess, through our subsidiary Partner Landline Telecommunication Solutions, L.P., land-line transmission and data capacity. Our land-line capacity also includes capacity which we lease from other land-line telecommunications service providers.

##### Service Centers and Points of Sale

Lease agreements for our retail stores and service centers are for periods of two to five years. We have the option to extend the lease agreements for different periods of up to sixteen additional years (including the original lease period).

The average size of our retail stores and service center is approximately 350 square meters. See also Note 17 (b) to our consolidated financial statements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following operating and financial review and prospects are based upon and should be read in conjunction with our financial statements and selected financial data, which appear elsewhere in this report. You should also read the risk factors appearing in this annual report for a discussion of a number of factors that affect and could affect our financial condition and results of operations.

### 5A. Operating Results

#### Overview

#### Adoption of IFRS

On January 1, 2009, we adopted International Financial Reporting Standards issued by the International Accounting Standards Board ("IFRS"), replacing the previous reporting standard which was United States Generally Accepted Accounting Principals ("US GAAP"). Thus, beginning January 1, 2009, we prepare our consolidated financial data according to IFRS. IFRS differs in certain respects from US GAAP. See Note 25 to our consolidated financial statements.

The transition date to IFRS for the Company under First Time Adoption of International Financial Reporting Standards is January 1, 2008. Comparative data of the Company's financial statements has been restated to retrospectively reflect the adoption of IFRS.

#### Business Developments in 2009

In 2009, approximately 144,000 net active subscribers joined the Company, compared with approximately 99,000 in 2008. The post-paid subscribers accounted for approximately 54% of annual net new active subscribers in 2009. At December 31, 2009, 73.3% of our customer base (approximately 2,231,000 subscribers) was represented by subscribers who subscribe to post-paid tariff plans, and 26.7% (approximately 811,000 subscribers) by subscribers who subscribe to pre-paid tariff plans.

The Company added approximately 318,000 subscribers to its 3G network in 2009, and its 3G subscriber base reached approximately 1,279,000 subscribers by year-end. Approximately 42% of our subscriber base benefited from the wide range of 3G services and advanced handsets we offered by year-end. The increase in 3G subscribers was a key driver for the increase in revenues from data and content services (excluding SMS messages) from NIS 501 million in 2008 to NIS 536 million in 2009.

The 2009 average monthly usage per subscriber ("MOU") for cellular subscribers was 364 minutes, slightly below the MOU of 365 minutes in 2008. The decrease derived from, among other reasons, a large number of free minutes that were granted to subscribers as part of special campaigns during 2008. In addition, the continued growth in mobile data subscribers (data modem users) as a proportion of the subscriber base has the effect of reducing MOU since these subscribers do not produce voice minutes. Excluding these two factors, MOU increased by approximately 2.5% in 2009, mainly influenced by the growth in incoming traffic. Reported 2009 annual average monthly revenue per subscriber ("ARPU") was NIS 151, a decrease of approximately 6.2% compared to NIS 161 in 2008. The decrease primarily reflected lower outgoing voice revenues due to both the competitive market conditions and the reduction in the billing interval at the beginning of 2009 as mandated by the Ministry of Communications, as well as the impact of lower roaming activity. These impacts were partially mitigated by continued increases in cellular content, data and SMS revenues.

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The table below sets forth a summary of selected financial and operating data for the years ended December 31, 2009 and 2008 (IFRS).

|   | Year ended December 31, |        |
|---|-------------------------|--------|
|   | 2008                    | 2009   |
| Revenues (NIS million)  | 6,302                   | 6,079  |
| Operating profit (NIS million)  | 1,826                   | 1,701  |
| Income before taxes (NIS million)   | 1,642                   | 1,525  |
| Net income (NIS million)  | 1,198                   | 1,141  |
| Capital expenditures (NIS million)  | 589                     | 522    |
| Cash flow provided by operating activities net of investment activities (NIS million) | 1,401                   | 1,021  |
| Subscribers (thousands)   | 2,898                   | 3,042  |
| Annual churn rate (%)   | 17.8                    | % 17.7 |
| Average monthly usage per subscriber (in minutes)                                     | 365                     | 364    |
| Average monthly revenue per subscriber (NIS)  | 161                     | 151    |

### Significant regulatory developments

Our license was amended, effective January 2009, to require us to offer tariff plans based on billing units no longer than one second. As a result, as of January 2009, all of our tariff plans are based on one second billing units.

### Revenues

We derive revenues from the sale of both services and equipment.

Our principal source of revenues is from the sale of cellular network services, primarily network airtime usage fees, and is denominated primarily in shekels. In 2009, as in 2008, approximately one half of cellular network airtime usage fees were derived from outgoing calls and tariff rate plan fees, with the remainder generated from interconnect fees from other operators, roaming, and data and content services (including SMS). Data and content revenues excluding SMS messages accounted for 9.9% of service revenues in 2009 compared with 9.0% of service revenues in 2008. This increase reflected a year-on-year 6.8% increase in data and content revenues excluding SMS messages. Revenues from SMS message services accounted for 7.0% of service revenues in 2009, compared with 5.9% of service revenues in 2008, reflecting a year-on-year 16% increase in revenues from SMS message services. Other service revenues include revenues from the sale of extended handset warranties and of land-line and transmission services.

The fixed line business segment derives revenues from a number of services provided over fixed line networks including transmission services, Primary Rate Interface ("PRI") lines for business sector customers, VoB telephony services and ISP services.

Cellular equipment revenues are derived from sales of cellular handsets, datacards, modems (including built-in modems in laptops) and related equipment, car kits and accessories.

For the fixed line business services, equipment revenues include domestic routers, smartboxes and DECT phones, as well as related accessories.

We recognize revenues from network services (cellular, fixed-line and ISP) at the time we provide the service to the subscriber. We recognize revenues from equipment only upon delivery and the transfer of ownership to the subscriber.

### Cost of Revenues

The principal components of our cost of revenues are:

- Payments to transmission, communication and content providers
  - Cost of revenues – equipment
  - Depreciation and amortization
- Wages and employee benefits expenses (including car maintenance)
  - Operating lease, rent and overhead expenses
  - costs of replacing or repairing damaged handsets
  - Network maintenance



- Car kit installation , IT support, and other operating expenses
- Royalties paid to the Israeli Government under our license

#### Selling and Marketing Expenses

The principal components of our selling and marketing expenses are:

- Wages and employee benefits expenses (including car maintenance)
  - Advertising and marketing
  - Selling commissions
  - Depreciation

#### General and Administrative Expenses

The principal components of our general and administrative expenses are:

- Wages and employee benefits expenses (including car maintenance)
  - Allowance for doubtful accounts
  - Professional fees
  - Credit card commissions
  - Depreciation

#### Other Income, net

The principal components of our other income, net, are:

- Interest income on trade receivables
- Capital loss from sale of property and equipment

#### Financial Expenses

The principal components of our financial expenses, net, are:

- Linkage expenses to CPI
- Interest expenses
- Fair value gain from derivative financial instruments, net
- Net foreign exchange rate costs

- Interest expenses in respect of liability for employees rights upon retirement, net
  - Factoring costs, net
  - Interest income from cash equivalents



### Key Business Indicators (Operating Data)

Our primary key business indicators are described below. These indicators are widely used in the cellular telephone service industry to evaluate performance.

- number of total and 3G subscribers;
- average monthly revenue per subscriber;
- average monthly minutes of usage per subscriber; and
- churn rate.

### Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations below is based upon our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. We also evaluate our estimates on an ongoing basis. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Please refer to Note 2 to our consolidated financial statements included in this annual report for a summary of all of our significant accounting policies.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. See also Note 4 to our consolidated financial statements.

#### (a) Estimates and assumptions

##### Revenue Recognition

The Company recognizes service revenues based upon minutes and seconds used, net of credits and adjustments for service discounts. Because the Company's billing cycles use cut-off dates, which for the most part do not coincide with the Company's reporting periods, the Company is required to make estimates for service revenues earned but not yet billed at the end of each reporting period. These estimates are based primarily upon historical data and trends. Actual billing cycle results and related revenue may vary, depending on subscriber usage and rate plan mix, from the results estimated at the end of each period.

In certain cases, cellular handsets are sold to subscribers within the context of airtime packages, in order to allocate the revenues into separate units of accounting; the Company is required to estimate the fair value of each deliverable. These estimates are based upon the price of each deliverable when it is sold on a stand alone basis.

##### Long-Lived Assets

The Company has substantial investments in tangible long-lived assets, primarily the Company's communications network. The assets are depreciated on a straight line basis over their useful economic lives. Changes in technology or changes in the Company's intended use of these assets can cause the estimated period of use or the value of these assets to change. The Company reviews the communications network, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If necessary, the Company writes down the assets to their recoverable amounts. The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

For instance, had the percentage of depreciation been decreased by 5%, our operating profit would increase by approximately NIS 98 million and had the percentage of depreciation increased by 5%, our operating profit would decrease by approximately NIS 79 million.

At the January 1, 2008 transition date to IFRS, the Company chose to state the property and equipment at their fair value and to determine that value as deemed cost, in accordance with the exemption of IFRS 1. As part of the deemed cost, the Company made an estimation of the remaining useful life of each significant component of property and equipment. See Note 25 to our consolidated financial statements.

#### Licenses

The license to operate cellular communication services is recognized at cost, adjusted for changes in the CPI until December 31, 2003, a(see note 2 a (d) to our consolidated financial statements) and is amortized using the straight line method over its contractual period – the period ending in 2022. The license for providing fixed-line telephone services is stated at cost and is amortized by the straight-line method over the contractual period of 20 years, starting in 2007. The estimated amortization period is based on management estimates and on the current valid license period, excluding any possible future extensions. The Company reviews the intangibles for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If necessary, the Company writes down the assets to their recoverable amounts.

#### Subscriber Acquisition and Retention Costs (SARC)

Costs to acquire or retain postpaid mobile telecommunication subscribers, pursuant to a contract with early termination penalties are capitalized in accordance with the policy described in Note 2 (g) (4) to our consolidated financial statements. The costs (the subsidy and fees) associated with these sales, where the Company subsidizes the sale of the handset by selling it below its cost to secure a fixed-term profitable service contract, are considered element of cost and the sale of the handset is treated as non-revenue-generating transaction. Accordingly no revenue is recognized from these types of handset sales. The Company made an estimate of the expected useful life of the SARC, which is not longer than their minimum enforceable period, which is generally a period of 18 months. This estimate is reviewed, and adjusted if appropriate, at the end of each reporting period.

#### Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the Company's subscribers to make required payments. The Company bases the allowance on the likelihood of recoverability of accounts receivable based on the age of the balances, the Company's historical write-off experience net of recoveries, changes in the credit worthiness of the Company's customers, and collection trends. The allowance is periodically reviewed. The allowance charged to expenses is determined in respect of specific debts doubtful of collection, calculated as a specified percentage of the outstanding balance in each debt age group, with the percentage of the allowance increasing as the age of the debt increases.

For example, a debt that is between 1 to 1.5 years overdue is reserved for at the rate of 82.5%. If we decreased our percentage of the allowance for all aging debts by 15%, our operating profit would increase by NIS 35 million. If we increased such percentage by 15%, our operating profit would decrease by NIS 26 million. Actual customer collections could differ from our estimates. For example, if the financial condition or our customers were to deteriorate, additional allowances may be required. Our bad debt expenses as a percentage of revenues were 0.7%, 1.4% and 1.2% for the years ended December 31, 2007, 2008 and 2009, respectively.

#### (b) Judgments

Provisions for legal claims:

The Company exercises judgment in measuring and recognizing provisions and the exposure pending litigation or other outstanding claims including claims for class actions. Judgment is necessary in the assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of final settlement. Provisions are recorded for liabilities when a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimations are subject to change as new information becomes available, primarily with the support of internal specialists, or with the support of outside consultants such as legal counsel.

Revisions to the estimates of these losses may affect future operating results.

Regarding determination whether the Company is acting as a principal or as an agent, see Note 2(r) to our consolidated financial statements.

Sales of equipment with accompanying services:

The revenue recognition criteria are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. When the selling price of an arrangement includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. The Company made judgments to determine that certain sales of equipment with accompanying services constitute an arrangement with multiple deliverables, and accordingly, consideration received is allocated to each deliverable based on the relative fair value of the individual element.

Results of Consolidated Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Composition of revenues and cost of revenues

|                              | New Israeli Shekels     |       |
|------------------------------|-------------------------|-------|
|                              | Year ended December 31, |       |
|                              | 2008                    | 2009  |
|                              | In millions             |       |
| Service revenues             | 5,546                   | 5,424 |
| Equipment revenues           | 756                     | 655   |
| Total revenues               | 6,302                   | 6,079 |
| Cost of revenues – Services  | 3,025                   | 3,206 |
| Cost of revenues - Equipment | 843                     | 564   |
| Total Cost of revenues       | 3,868                   | 3,770 |
| Gross profit                 | 2,434                   | 2,309 |

Revenues. Partner achieved total net revenues of NIS 6,079 million (US\$ 1,610 million) in 2009, a decrease of 3.5% from NIS 6,302 million in 2008.

Revenues from services. Annual service revenues totaled NIS 5,424 million (US\$ 1,437 million) in 2009, decreasing by 2.2% from NIS 5,546 million in 2008. The annual decrease was due to lower outgoing voice revenues reflecting both the competitive market conditions and the reduction in the billing interval at the beginning of 2009 as mandated by the Ministry of Communications, as well as the impact of lower roaming activity.

These impacts were partially mitigated by continued increases in fixed line business revenues and content and data revenues and by the increase in 2009 in total network minutes of approximately 3.4%. Growth in total network minutes resulted from our expanding subscriber base, which grew by approximately 5% at year-end 2009 compared to the subscriber base at year-end 2008.



Data and content revenues excluding SMS increased by 6.8% in 2009 to NIS 536 million (US\$ 142 million), compared with NIS 501 million in 2008 and represented 9.9% of service revenues in 2009 compared with 9.0 % of service revenues in 2008.

Revenues from SMS message services in 2009 totaled NIS 377 million (US\$ 100 million), accounting for 7.0% of service revenues, up by 16.0% from NIS 325 million, or 5.9% of service revenues, in 2008.

Revenues from equipment. Equipment revenues in 2009 were NIS 655 million (US\$ 173 million), decreasing by 13.4% from NIS 756 million in 2008. The decrease in revenues principally reflected the impact of handset capitalization of those sales where the conditions for capitalization under IFRS were met. This had the effect of reducing equipment revenues by approximately NIS 241 million. The annual increase in handset revenues taking into account the capitalized handset revenues is primarily due to an increase in revenue per handset sale.

Whilst our financial statements have been prepared on the basis of the application of IFRS as from January 1 2008, the capitalization of subscriber acquisition and retention costs (including relevant handset revenues) only began on January 1, 2009, the first period in which the conditions for capitalization as described in the relevant accounting policy were fulfilled.

Gross profit. Gross profit in 2009 totaled NIS 2,309 million (US\$ 612 million), representing a 5.1% decrease from NIS 2,434 million in 2008.

Gross profit from services. The annual gross profit from services was NIS 2,218 million (US\$ 588 million) in 2009, a decrease of 12.0% from NIS 2,521 million in 2008. The decrease reflected lower service revenues, as well as an increase of 6.0% in the cost of service revenues from NIS 3,025 million in 2008 to NIS 3,206 million (US\$ 849 million) in 2009. The increase in the cost of service revenues primarily reflected additional expenses associated with the new fixed line services, and additional amortization expenses of approximately NIS 88 million of the handsets subsidies that were capitalized starting in 2009. These expenses were partially offset by various cost control activities, lower roaming expenses, the impact of the annual reduction in the rate of royalty payments (under our operating license) and the impact of the reduction in the interconnect tariff billing interval from 12 second intervals to single second intervals which was mandated by the Ministry of Communications from the beginning of 2009.

Gross profit from non-capitalized equipment sales. The gross profit from non-capitalized equipment sales was NIS 91 million (US\$ 24 million) in 2009, compared with a gross loss on equipment sales of NIS 87 million in 2008. This change primarily reflected the net impact of the capitalization of handset subsidies (handset revenues less handset costs) under IFRS in 2009 in an amount of approximately NIS 169 million, in addition to a decrease in the average subsidy per transaction.

Selling, marketing and general and administrative expenses. Selling, marketing, general and administrative expenses amounted to NIS 677 million (US\$ 180 million) in 2009, a slight increase of 0.7% from NIS 672 million in 2008. The increase mainly reflected the additional marketing, selling and administration expenses related to the ISP and fixed telephony initiatives, offset by the net impact of the capitalization of sales costs and commissions under IFRS which reduced expenses by approximately NIS 29 million in 2009.

In addition, the Company undertook a number of cost control measures over the year to limit sales and marketing expenses. The annual expenses recorded in 2009 for doubtful accounts from receivables on handset sales and service revenues also decreased compared with 2008.

Operating profit. As a result of the above, the Company recorded an operating profit of NIS 1,701 million (US\$ 451 million) in 2009, a 6.8% decrease from NIS 1,826 million in 2008.

Financial expenses, net. Financial expenses, net, for 2009 were NIS 176 million (US\$ 47 million), representing a decrease of 4.3% from NIS 184 million in 2008. The annual decrease was primarily attributable to a decrease in interest expenses and linkage expenses to CPI related to Notes Series A.

Profit before income tax. Profit before income taxes for 2009 was NIS 1,525 million (US\$ 404 million), down 7.1% compared to NIS 1,642 million in 2008.



Income taxes on profit for 2009 were NIS 384 million (US\$ 102 million), a decrease of 13.5% from NIS 444 million in 2008.

The decrease mainly reflected the impact of the reduction in Israeli corporate tax rate from 27% in 2008 to 26% in 2009. The Israeli corporate tax rate has been reduced further to 25% for 2010.

Net profit. Net profit in 2009 was NIS 1,141 million (US\$ 302 million) and earnings per diluted share were NIS 7.37 (US\$ 1.95), representing a 4.8% decrease from net profit of NIS 1,198 million and earnings per diluted share of NIS 7.65, in 2008.

Results of Operations by Segment for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

|  | New Israeli Shekels<br>Year ended December 31, 2009<br>In millions |                       |  |              |
|--|--|-----------------------|--|--------------|
|  | Cellular<br>segment  | Fixed line<br>segment | Reconciliation<br>for<br>consolidation | Consolidated |
| Segment revenue - Services   | 5,369  | 55                    |  | 5,424        |
| Inter-segment revenue - Services                                     | 11   | 33                    | (44 )                                  |              |
| Segment revenue - Equipment  | 628  | 27                    |  | 655          |
| Total revenues   | 6,008  | 115                   | (44 )                                  | 6,079        |
| Segment cost of revenues – Services                                  | 3,091  | 115                   |  | 3,206        |
| Inter-segment cost of revenues- Services                             | 33   | 11                    | (44 )                                  |              |
| Segment cost of revenues - Equipment                                 | 518  | 46                    |  | 564          |
| Cost of revenues   | 3,642  | 172                   | (44 )                                  | 3,770        |
| Gross profit (loss)  | 2,366  | (57 )                 |  | 2,309        |
| Operating expenses   | 626  | 51                    |  | 677          |
| Other income   | 69   |                       |  | 69           |
| Operating profit (loss)  | 1,809  | (108 )                |  | 1,701        |
| Adjustments to presentation of EBITDA –depreciation and amortization | 552  | 25                    |  | 577          |
| –other   | 26   |                       |  | 26           |
| EBITDA   | 2,387  | (83 )                 |  | 2,304        |
| Reconciliation of EBITDA to profit before tax :                      |  |                       |  |              |
| - Depreciation and amortization                                      |  |                       |  | (577 )       |
| - Finance costs, net   |  |                       |  | (176 )       |
| - Other  |  |                       |  | (26 )        |
| Profit before tax  |  |                       |  | 1,525        |
| Allowance for decline in value of inventories                        | 7  | 2                     |  | 9            |

New Israeli Shekels  
Year ended December 31, 2008  
In millions

|   | Cellular<br>segment | Fixed line<br>segment | Reconciliation<br>for<br>consolidation | Consolidated |
|---|---------------------|-----------------------|--|--------------|
| Segment revenue - Services  | 5,521               | 25                    |  | 5,546        |
| Inter-segment revenue - Services  | 2                   | 15                    | (17 )                                  |              |
| Segment revenue - Equipment   | 756                 | -                     |  | 756          |
| Total revenues  | 6,279               | 40                    | (17 )                                  | 6,302        |
| Segment cost of revenues – Services                                     | 2,969               | 56                    |  | 3,025        |
| Inter-segment cost of revenues- Services                                | 15                  | 2                     | (17 )                                  |              |
| Segment cost of revenues - Equipment                                    | 842                 | 1                     |  | 843          |
| Cost of revenues  | 3,826               | 59                    | (17 )                                  | 3,868        |
| Gross profit (loss)   | 2,453               | (19 )                 |  | 2,434        |
| Operating expenses  | 656                 | 16                    |  | 672          |
| Other income  | 64                  |                       |  | 64           |
| Operating profit (loss)   | 1,861               | (35 )                 |  | 1,826        |
| Adjustments to presentation of EBITDA –depreciation and<br>amortization | 445                 | 18                    |  | 463          |
| –other  | 9                   |                       |  | 9            |
| EBITDA  | 2,315               | (17 )                 |  | 2,298        |
| Reconciliation of EBITDA to profit before tax                           |                     |                       |  |              |
| - Depreciation and amortization   |                     |                       |  | (463 )       |
| - Finance costs, net  |                     |                       |  | (184 )       |
| - Other   |                     |                       |  | (9 )         |
| Profit before tax   |                     |                       |  | 1,642        |
| Allowance for decline in value of inventories                           | 5                   | -                     |  | 5            |

### Cellular Business Segment

Revenues from services. In 2009, service revenues from the Company's cellular business segment totaled NIS 5,380 million (US\$ 1,425 million), representing a decrease of 3% from NIS 5,523 million in 2008. These revenues included approximately NIS 11 million of inter-segment revenues in 2009, compared with NIS 2 million in 2008. The annual decrease was due to lower outgoing voice revenues reflecting both the competitive market conditions and the reduction in the billing interval at the beginning of 2009 as mandated by the Ministry of Communications, as well as the impact of lower roaming activity. These impacts were partially mitigated by continued increases in content and data revenues and by the increase in 2009 in total network minutes of approximately 3.4%, resulting from the expanding subscriber base, which grew by approximately 3.5% on an average basis in 2009.

Revenues from equipment. Equipment revenues from the Company's cellular business segment totaled NIS 628 million (US\$ 166 million) in 2009, compared with equipment revenues of NIS 756 million in 2008. The decrease in revenues principally reflected the impact of handset capitalization of those sales where the conditions for capitalization under IFRS were met. This had the effect of reducing equipment revenues by approximately NIS 241 million.

Gross profit from services. The gross profit from the cellular business segment service revenues was NIS 2,256 million (US\$ 598 million) in 2009, compared with NIS 2,539 million in 2008, a decrease of 11%. The decrease reflected the lower service revenues, as well as an increase in the cost of service revenues. The increase in the cost of service revenues primarily reflected additional amortization expenses in an amount of approximately NIS 88 million of the handsets subsidies that were capitalized starting in 2009. These expenses were partially offset by various cost control activities, lower roaming expenses, the impact of the reduction in the rate of royalty payments and the impact of the reduction in the interconnect tariff billing interval.

Gross profit from equipment. The gross profit from the cellular business segment equipment revenues was NIS 110 million (US\$ 29 million) in 2009, compared with a gross loss of NIS 86 million in 2008. This change primarily reflected the net impact of the capitalization of handset subsidies (handset revenues less handset costs) under IFRS in 2009 in an amount of approximately NIS 169 million, in addition to a decrease in the average subsidy per transaction.

Gross profit. The overall gross profit from the cellular business segment was NIS 2,366 million (US\$ 627 million) in 2009, compared with NIS 2,453 million in 2008, a decrease of 4%.

Selling, marketing and general and administrative expenses. The cellular segment's selling, marketing, general and administrative expenses amounted to approximately NIS 626 million (US\$ 166 million) in 2009, a decrease of 4.6% from NIS 656 million in 2008. The decrease reflected the net impact of the capitalization of sales costs and commissions under IFRS which reduced expenses by approximately NIS 29 million in 2009. In addition, the Company undertook a number of cost control measures over the year to reduce sales and marketing expenses. The expense for doubtful accounts from receivables on handset sales and service revenues also decreased in 2009 compared with 2008.

Operating profit. As a result of the above, operating profit from the segment's activities totaled NIS 1,809 million (US\$ 479 million) in 2009, compared with NIS 1,861 million in 2008, a decrease of 3%.

EBITDA for the segment was NIS 2,387 million (US\$ 632 million) in 2009, representing an increase of 3% from NIS 2,315 million in 2008.

#### Fixed Line Business Segment

Revenues from services. In 2009, service revenues from the Company's fixed line business segment totaled NIS 88 million (US\$ 23 million), representing an increase of 120% from NIS 40 million in 2008. These revenues included approximately NIS 33 million of inter-segment revenues in 2009, compared with NIS 15 million in 2008. The increase was attributable mainly to the introduction of the ISP and fixed line telephony services in 2009.

Revenues from equipment. Equipment revenues from the Company's fixed line business segment totaled NIS 27 million (US\$ 7 million) in 2009, compared with no equipment revenues in 2008.

Gross loss from services. The gross loss from the fixed line business segment service revenues was NIS 38 million (US\$ 10 million) in 2009, compared with NIS 18 million in 2008, an increase of 111%. The increase was attributable to expenses related to introduction of the ISP and fixed line telephony services in 2009.

Gross loss from equipment. The gross loss from the fixed line business segment equipment revenues was NIS 19 million (US\$ 5 million) in 2009, compared with NIS 1 million in 2008. Again, the increase was attributable to the introduction of the ISP and fixed line telephony services in 2009.

Gross loss. The overall gross loss from the fixed line business segment was NIS 57 million (US\$ 15 million) in 2009, compared with a gross loss of NIS 19 million in 2008, an increase of 200%. The increase in the gross loss was attributable to expenses related to the introduction of the ISP and fixed line telephony services in 2009.

Selling, marketing and general and administrative expenses. The fixed line segment's selling, marketing, general and administrative expenses amounted to approximately NIS 51 million (US\$ 14 million) in 2009, an increase of 219% from NIS 16 million in 2008.



Operating loss. Operating loss from the segment's activities totaled NIS 108 million (US\$ 29 million) in 2009, compared with a loss of NIS 35 million in 2008, an increase of 208%.

EBITDA for the segment was a loss of NIS 83 million (US\$ 22 million) in 2009, representing an increase in loss of 388% from NIS 17 million in 2008. Within the total, the new ISP and fixed line telephony services contributed a loss of NIS 119 million, compared with a loss of NIS 26 million from these services in 2008. The loss from the new ISP and fixed line telephony services was partially offset by an increase in profit of NIS 27 million from the transmission and PRI services.

#### Seasonality

Our service revenues and profitability show some seasonal trends over the year, but the overall impact is not considered to be material. Generally, airtime minutes and consequently airtime revenues are affected by the number of monthly work days and daylight hours in the day, which varies throughout the year. In addition, airtime revenues are lower in February which is a shorter than average month and during the Jewish holiday period, but are higher in the summer months as a result of roaming charges from increased travel abroad by subscribers and from foreign roamers using our network. There is no assurance that these trends will continue in the future.

| NIS in millions         | Three months ended |         |          |         |
|-------------------------|--------------------|---------|----------|---------|
|                         | March 31           | June 30 | Sept. 30 | Dec. 31 |
| <b>Service Revenues</b> |                    |         |          |         |
| 2008                    | 1,342              | 1,376   | 1,458    | 1,397   |
| 2009                    | 1,298              | 1,360   | 1,389    | 1,377   |

#### Impact of Inflation and Exchange Rate Fluctuations

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, in recent years, approximately one quarter of our operating expenses (excluding depreciation), including a substantial majority of our handset purchases, were linked to non-shekel currencies, mainly the US dollar. These expenses related principally to the acquisition of handsets, where the price paid by us is based mainly on US dollars. In addition, a substantial majority of our capital expenditures (including with respect to our 3G networks) are incurred in, or linked to, non-shekel currencies, mainly US dollars. Thus, although the relative decline in value of the US dollar against the shekel has helped offset increases in our financial and operating expenses in recent years, any devaluation of the shekel against the dollar (or other foreign currencies) will increase the shekel cost of our non-shekel denominated or linked expenses and capital expenditures. Such an increase may have an adverse impact on our results, which may be material. Material changes in exchange rates may cause the amounts that we must invest to increase materially in shekel terms. We hedge a portion of our foreign currency commitments. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

Our current borrowings are in shekels, and most of our financial debt are linked to the consumer price index. If the CPI increases, we may not be permitted to raise our tariffs in a manner that would fully compensate for any increase in our financial expenses. In 2009, the CPI increased 3.8 %, causing an increase of NIS 88 million in our financial expenses, net, compared to a CPI increase of 4.5% in 2008, which caused an increase of NIS 102 million in financial expenses, net. The CPI for each month is published on the 15th day of the following month; references above to the annual change in CPI for a given year is the change from the CPI published on the 15th day of December of the preceding year to the CPI published on the 15th day of December of the relevant year, which for the purposes of this annual report, covers the twelve months beginning January 1 through December 31 of the year in question. To hedge

the impact of increases in the CPI, we enter into derivative transactions. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk”.

## 5B. Liquidity and Capital Resources

The discussion below first describes our financial indebtedness (Notes payable, long-term bank loans and credit facilities, and total financial debt) and capital expenditures, then our dividend payment and share repurchase policies, and finally our main sources of liquidity.

## Notes payable:

Notes Series A due 2012. In March 2005, we completed the offering of our Notes due 2012, raising NIS 2.0 billion in a public offering in Israel. Of these, notes having an aggregate principal amount of approximately NIS 36.5 million were purchased by our wholly owned subsidiary Partner Future Communications 2000 Ltd., or PFC. PFC also received an additional allocation of notes having an aggregate principal amount of NIS 500 million. The notes that PFC received pursuant to this additional allocation do not confer the right to receive any payment whatsoever on account of principal or interest until they are first sold by PFC. To date, no such notes have been sold to third parties. The notes due 2012 are listed on the Tel-Aviv Stock Exchange, and members of our Board of Directors and senior management may have purchased a portion of the notes due 2012 through stock exchange transactions.

Quarterly repayments of principal and interest on the Notes Series A due 2012 are made in twelve installments, beginning in June 2009 and ending in March 2012. Principal and interest payments on the Notes Series A due 2012 are linked to the consumer price index, with annual interest on the notes equal to 4.25% adjusted according to the CPI. The notes were rated AA- stable by Standard and Poor's Maalot, and Aa2 with a negative forecast by Midroog, two of Israel's rating agencies.

Under the Settlement agreed in connection with the distribution of a special dividend, the interest due on the Notes Series A may be increased in 2010 and 2011. See "Item 5D. Trend Information – Recent Developments".

The table below sets forth the payments of principal to be made on our Notes Series A due 2012, based on the CPI at December 31, 2009.

| In millions             | NIS   | Convenience translation into US dollars |
|-------------------------|-------|---|
| Year ended December 31: |       |   |
| 2010                    | 750   | 199                                     |
| 2011                    | 750   | 199                                     |
| 2012                    | 187   | 49                                      |
| Total                   | 1,687 | 447                                     |

Notes Series B due 2016. On November 29, 2009 the Company issued to Israeli institutional investors approximately NIS 448 million of unsecured non-convertible Series B notes through a private placement in Israel. The notes are linked (principal and interest) to increases in the Israeli CPI. The principal amount of Series B notes is repayable in four equal annual installments between 2013 and 2016 and bear interest at annual rate of 3.4%. The interest is payable on a semi-annual basis.



The annual interest rate on the Notes has been increased by 0.6% and therefore the interest which is payable now is 4% until a prospectus or a shelf offering report is published for the listing of the Notes for trade on the TASE. The Notes have been rated ilAA-/Stable, on a local scale, by Standard & Poor's Maalot. The Notes are listed for trading on the "Institutional Retzef" a trading system for institutional investors in Israel. The Company has also undertaken to make best efforts to list the Notes for trading on the TASE by June 30, 2010. Nevertheless, in the event the Notes are not listed for trade on the TASE by such date, the increased interest rate applicable to the Notes prior to their listing as discussed above and below shall remain in effect until any future listing of the Notes for trading on the TASE.

So long as the Notes are not listed for trade on the TASE, Partner has undertaken the following: (i) to pay additional interest at an annual rate of 0.6% until a prospectus or a shelf offering report is published for the listing for trade of the Notes on the TASE; (ii) to make a one-time additional interest payment at an annual rate of 0.25% in the event there is a downgrade in the rating of the Notes from the date of the downgrade announcement by the rating agency, and until a prospectus or a shelf offering report is published for the listing of the Notes for trading on the TASE. If the rating of the Notes is further downgraded, no additional interest payments will be made following such subsequent downgrades; (iii) a negative pledge (subject to certain carve-outs); and (iv) to undertake additional events of default of the Notes, as follows: (a) the rating of the Notes in Israel decreases below BBB (by Standard & Poor's Maalot or an equivalent rating by another rating agency) on a local scale; and (b) Partner fails to comply with its existing financial covenants.

All such undertakings will be terminated upon the listing of the Notes for trading on the TASE; however, in the event the Notes are deregistered from the TASE (except deregistration resulting from merger or debt arrangement), such undertakings will become effective again (except the undertaking listed in subparagraph (ii) above). The Notes have not been, and will not be, registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to U.S. persons, absent registration or an applicable exemption from registration requirements.

The table below sets forth the payments of principal to be made on our Notes Series B due 2016, based on the CPI at December 31, 2009.

| In millions             | NIS    | Convenience translation into US dollars |
|-------------------------|--------|---|
| Year ended December 31: |        |   |
| 2013                    | 112.25 | 29.75                                   |
| 2014                    | 112.25 | 29.75                                   |
| 2015                    | 112.25 | 29.75                                   |
| 2016                    | 112.25 | 29.75                                   |
| Total                   | 449    | 119                                     |

#### Long-term Bank Loans and Credit Facilities:

The Company had a senior credit facility with leading Israeli commercial banks. The facility was divided into two tranches: a USD 150 million term loan facility ("Facility A") and a USD 100 million revolving loan facility ("Facility B"); both expired on September 1, 2009. The amounts drawn from facility A and facility B as of December 31, 2008 were USD 6 million and nil, respectively. During 2009 the Company used facility B to draw very short-term credits.

In the fourth quarter of 2009, in order to finance the distribution of a special dividend of NIS 1.4 billion (see "Item 5D. Trend Information - Recent Developments"), we established three new credit facilities and took out a loan:

- On October 1, 2009, a new facility ("Facility C") was established with a leading commercial bank in the amount of NIS 250 million for a maximum period of 5 years, at a wholesale interest rate plus a margin of 0.85%. The facility is to be used for short term financing. The wholesale interest rate of the bank as of December 31, 2009 was 1.1% per year. The Company is charged a commitment fee of 0.4% per year for undrawn amounts. As of December 31, 2009 no funds had been drawn from this facility.

-On November 24, 2009, a new facility ("Facility D") was established with a leading commercial bank in the amount of NIS 700 million for a maximum period of 3 years, at a wholesale interest rate plus a margin of 0.85%, effective from January 1, 2010. The facility is to be used for short-term financing. The wholesale interest rate of the bank as of December 31, 2009 was 1.15% per year. The Company is charged a commitment fee of 0.4% per year for undrawn amounts.

-On December 2, 2009, a new facility ("Facility E") was established with a leading commercial bank in the amount of NIS 250 million for a maximum period of 3 years, at a wholesale interest rate plus a margin of 0.85%, effective from January 1, 2010. The facility is to be used for short-term financing. The wholesale interest rate of the bank as of December 31, 2009 was 1.1% per year. The Company is charged a commitment fee of 0.4% per year for undrawn amounts.

-On December 28, 2009, a new long-term loan was established with a leading commercial bank in the amount of NIS 300 million for a period of 4 years, bearing variable interest at the rate of the Israeli Prime interest rate minus a margin of 0.35%. The interest is payable quarterly and the principal is payable in one payment at the end of the loan period. The Israeli Prime interest rate as of December 31, 2009, was 2.5% per year. The Israeli Prime interest rate is determined by the Bank of Israel and updated on a monthly basis.

Financial covenants: With respect to Facilities C, D, E, the new long-term loan, and the Notes Series B (see Notes 13 and 14 to our consolidated financial statements), the Company undertook to comply with financial covenants, the main provisions of which are two ratios: (1) The ratio of (a) the amount of all financial obligations of the Company's total debt (total obligations as presented in Item 5F in addition to bank guarantees that the Company has undertaken) to (b) Earnings Before Interest costs, Tax, Depreciation and Amortization expenses ("EBITDA") after deducting Capital Expenditures must not exceed 6.5, and (2) the ratio of (a) total debt to (b) the EBITDA of the Company must not exceed 4.

As used above, "EBITDA" is defined as the sum of (a) the net income before extraordinary items, (b) the amount of tax expenses set against the net profits including, without double counting, any provisions for tax expenses, (c) amortization and depreciation expenses, and (d) any finance costs (net), and "Capital Expenditures" is defined as any expenditure which is classified as "fixed and intangible asset" in the Company's consolidated financial statements.

The covenants are measured every six months on an annualized basis of twelve months and are based on the financial results for the preceding period of twelve months. At December 31, 2008 and 2009, the Company was in compliance with all covenants stipulated for the years 2008 and 2009, respectively. For a discussion of the impact on these ratios of our drawdowns of the new credit facilities in connection with the payment of the special dividend, see "Item 5D. Trend Information - Recent Developments". (See Note 6 to our consolidated financial statements regarding the Company's exposure to market risks and liquidity risk.)

Negative pledge: The Company provided a negative pledge undertaking (i.e., not to pledge any of its assets to a third party), except for a number of exceptions that were agreed upon, including pledge (other than by way of floating charge) in favor of a third party to finance its purchase and pledge of assets whose total value does not exceed NIS 100 million.

#### Total Financial Debt.

At December 31, 2009, total financial debt (including the current portion of our long-term liabilities) amounted to NIS 2,433 million, compared to NIS 2,192.0 million at December 31, 2008. The increase in total financial debt at year-end 2009 reflected principally the issuance of Notes Series B and the borrowing under our new long-term bank loan which were partially offset by the repayments of principal and interest of Notes Series A. Short-term financial debt, which is comprised of the current portion of long-term debt, amounted to NIS 752 million at December 31, 2009, compared to NIS 568 million at December 31, 2008, reflecting principally the repayments on our Notes due 2012 which are due during 2010 and which were due in 2009, respectively. For a discussion of our total financial debt following the anticipated drawdowns on our credit facilities in connection with the special dividend distribution, see "Item 5D. Trend Information – Recent Developments".

We intend to fund the repayment of the current portion of our Notes payable in 2010 (NIS 750 million in principal plus approximately NIS 75 million in interest linked to the CPI in respect of Notes Series A and Notes Series B plus approximately NIS 7 million in interest in respect of the new long-term bank loan as of December 31, 2009) through additional bank loans, the securitization of accounts receivable, the issuance or sale of corporate notes, available cash or operational cash flow, or a combination of one or more of these resources. See “Item 3D. Risk Factors – Our business results may be affected by the continued recession” for a discussion of uncertainties regarding the availability of funding.

Capital Expenditures. The mobile telephone business is highly capital intensive, requiring significant capital to acquire a license and to construct a mobile telecommunications network. The capital requirements of our network are determined by the coverage desired, the expected call traffic and the desired quality and variety of services. Network construction costs are mainly related to the number of cells in the service area, the number of radio channels in the cell and the switching equipment required.

In 2009 and 2008, our capital expenditures amounted to approximately NIS 589 million and NIS 522 million, respectively, and were principally related to our network. In 2008, major capital expenditures included expenditures related to the agreement with LM Ericsson Israel Ltd. in December 2007 for the replacement of third party 3G radio equipment existing in our network and for additional investment in the 3G network. In addition, we invested in our new portfolio of fixed-line and ISP services. These investments will continue in 2010, and we currently expect our capital expenditures for 2010 to remain below 10% of anticipated revenues. We fund our capital expenditures principally through cash from operations.

Dividend payments and share repurchases. For the year 2009, the Company distributed dividends and declared a final dividend on March 16, 2010 (with respect to the fourth quarter of 2009), which in the aggregate amounted to approximately NIS 1,059 million (US\$ 281 million), or NIS 6.86 per share, representing a payout ratio of approximately 93% of our annual net income for the year. Cash dividends are paid in Israeli currency. For further information see “Item 3D. Risk Factors – We may not be able to fulfill our dividend policy in the future. If we implement our current dividend policy, we will reduce our future cash reserves, which may require us to borrow additional money.” and “Item 8A. Consolidated Financial Statements and other Financial Information – Dividend Distribution Policy”. For a discussion of our announced special dividend to be distributed on March 18, 2010, see “Item 5D. Trend Information – Recent Developments”.

In February 2008, the Board also approved a share buy-back plan throughout 2008 in an amount of up to NIS 600 million, subject to appropriate market conditions. Through September 30, 2008, we repurchased approximately 4.5 million of our shares at an average price per share of NIS 78.44 for a total consideration of approximately NIS 351 million. In view of the significant market turbulence beginning in the second half of 2008, the Board of Directors suspended the share buy-back plan.

#### Main sources of liquidity

- cash on hand;
- operating cash flows; and
- our credit facilities.

Cash on hand. At December 31, 2009, we had NIS 329 million in cash on hand, compared to NIS 184 million at year-end 2008.

Operating cash flows. Cash flows generated from operating activities in 2009 (NIS 1,753 million or US \$463 million), net of cash flows from investing activities (NIS 732 million or US \$193 million), were NIS 1,021 million (US \$270 million), a decrease of 27.1%, or NIS 380 million, from NIS 1,401 million in 2008. Cash flow from operating activities decreased by 8.5% to NIS 1,753 million (US\$ 463 million) in 2009 from NIS 1,915 million in 2008. The decrease is principally explained by the effects of the introduction of factoring future handset payments in 2008 which provided a one-off boost to operating cash flow in 2008 of approximately NIS 200 million and also the increase in working capital which reduced cash generated from operations in 2009.

In addition, the cash flow used for investing activities increased by 42.4% from NIS 514 million in 2008 to NIS 732 million (US\$ 193 million) in 2009, reflecting the impact of the capitalization of subscriber acquisition and retention costs under IFRS on investments in intangible assets. Net investment in fixed assets for 2009 was NIS 526 million or 8.7% of total revenues, an increase of 7.8% from NIS 488 million in 2008.

Our credit facilities are described above under “Long-term Bank Loans and Credit Facilities”.

We believe that funds from our operations, together with funds available under our credit facilities, our cash on hand and our ability to raise further debt, will provide us with enough liquidity and resources to fund our expected capital expenditure needs, repayment of our notes, as well as our obligations under our financing agreements (including as a result of the anticipated drawdowns under our credit facilities - see “Item 5D. Trend Information – Recent Developments”), our license payments and our other material commitments, at least for the next 12 months. However, the actual amount and timing of our future requirements may differ materially from our estimates. See “Item 3D. Risk Factors – We may not be able to fulfill our dividend policy in the future. If we implement our current dividend policy, we might reduce our future cash reserves, which may require us to borrow additional money.” and “ – Our business results may be affected by an economic downturn.” for a discussion of uncertainties regarding raising additional debt.

#### 5C. Research and Development, Patents and Licenses

We are primarily a user rather than a developer of technology. Accordingly, we did not engage in any significant research and development activities during the past three years.

#### 5D. Trend Information

##### Recent developments

On December 27, 2009, the Company announced that its Board of Directors had resolved to distribute a special dividend of NIS 1.4 billion, or NIS 9.04 per share, to the Company's shareholders and reduce equity by NIS 1.4 billion.

Because the amount of the special dividend exceeds the legally available surplus for distribution, on December 31, 2010, the Company submitted an application ("Distribution Application") to the District Court having jurisdiction to request Court approval for the dividend distribution not in accordance with the conditions set forth in the law. Various applications and objections to the Distribution Application were submitted to the Court on behalf of a few holders of the Company's Notes Series A. On February 22, 2010, the Company announced that the District Court had approved a final settlement between the Company and the objecting holders of Notes Series A (the “Settlement”) and had approved the Distribution Application. According to the Settlement, in the event of a reduction in the current credit rating of the Notes Series A by the credit rating company S&P Maalot, there would be an increase in the annual linked interest rate of the Notes Series A of 1% in the year 2010, and of 0.5% in the year 2011, for each reduction of one rating category from the current credit rating (AA-). The increase would take effect from the date of publication of the credit downgrading, and remain in effect as long as the credit downgrading is valid. The increase in the interest rate would terminate upon the earlier of a credit upgrade or by the end of the relevant calendar year, whichever occurs first, provided that the increased interest rate applies for at least three months. See Note 14(d) to our consolidated financial statements.

As a result, the Company has announced that it will distribute the special dividend on March 18, 2010, to shareholders of record as of March 7, 2010. On the dividend distribution date, the Company's equity will also be reduced by NIS 1.4 billion to approximately NIS 600 million.

In order to finance the special dividend distribution, we established three new credit facilities and entered into a loan agreement on December 28, 2009 (see “Item 5B. Liquidity and Capital Resources – Long-term Bank Loans and Credit Facilities”). Because we intend to draw down on the three new credit facilities to fund, together with the NIS 300 million proceeds from the new loan agreement, the full amount of the special dividend distribution, our total indebtedness and our short-term indebtedness will increase, as compared to December 31, 2009, by NIS 1.1 billion as



of the date of the dividend distribution. As a consequence, we anticipate that our total debt to EBITDA less capital expenditure ratio will be approximately 1.8 for 2010, and that our total debt to EBITDA ratio will be approximately 1.5. In addition, our total financial expense would increase by approximately NIS 50 million to NIS 70 million on an annual basis to cover additional interest expense, and by an additional NIS 12 million in 2010 and NIS 3 million in 2011 for each reduction of one rating category from the current credit rating (AA-), as described above.

See also "Item 6A. Directors and Senior Management - Appointments".

## Outlook

During the second half of 2009 and the first quarter of 2010, the Company undertook a wide-ranging efficiency and cost review, with the help of external consultants, with the aim of reducing operating costs. In the first quarter of 2010, Management also began to see some early signs of an economic recovery. These two factors are mainly the basis for Management's expectation that profitability will be higher in 2010 than in 2009, providing that the regulatory and competitive environment evolve as currently anticipated.

Should an MVNO enter the market in the future, we anticipate that the primary impact will be an increase in churn of low-contribution pre-paid subscribers and a dilution of tariffs for those subscribers. We do not expect the entry of MVNO's to significantly affect the future profitability of the Company.

The statements above under this section regarding trends 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 mobile telephone usage, trends in the Israeli telecommunications industry in general, possible regulatory and legal developments and trends in general economic conditions. For a description of some of the risks we face, see "Item 3D. Key Information – Risk Factors" in particular "– Our business results may be affected by an economic downturn", "Item 4. Information on the Company", "Item 5. Operating and Financial Review and Prospects" and "Item 8A. Consolidated Financial Statements and Other Financial Information – Legal and Administrative Proceedings". In light of these risks, uncertainties and assumptions, the forward-looking events discussed above might not occur, and actual results may differ materially from the results anticipated.

## 5E. Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## 5F. Aggregate Contractual Obligations

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2009:

| Contractual Obligations   | Total | Payments Due by Period (NIS in millions) |           |           |                   |
|---|-------|--|-----------|-----------|-------------------|
|   |       | less than 1 year                         | 1-3 years | 3-5 years | more than 5 years |
| <b>Long-Term Debt*</b>  |       |  |           |           |                   |
| Notes Series A  | 1,687 | * 750                                    | 937       | -         | -                 |
| Notes Series B  | 449   | * -                                      | -         | 225       | 224               |
| Long term bank borrowing  | 300   | * -                                      | -         | 300       | -                 |
| Capital Lease Obligations   | 4     | 2  | 2         | -         | -                 |
| Operating Leases  | 1,328 | 220                                      | 361       | 285       | 462               |
| Contribution to funds in respect of Employee rights in respect of severance pay funds | 30    | 30                                       | -         | -         | -                 |
| Handsets  | 848   | 454                                      | 394       | -         | -                 |

|                                    |       |       |       |     |     |
|------------------------------------|-------|-------|-------|-----|-----|
| Fixed Assets                       | 86    | 86    | -     | -   | -   |
| Total Contractual Cash Obligations | 4,732 | 1,542 | 1,694 | 810 | 686 |

\* The table above does not include payments of interest on our Long-Term Debt. Estimated interest payments for 2010 on the Notes payable and the long term bank loan total approximately NIS 82 million as of December 31, 2009.

The table above also does not reflect the impact of the anticipated drawdowns on our three new credit facilities (see “Item 5D. Trend Information – Recent Developments”) which would increase the amount of principal due for Long-term debt, and our Total Contractual Cash Obligations, by NIS 1.1 billion. Under the terms of the credit facilities, which are for periods of three or five years, the Company has the right to borrow short term loans, and such borrowed amounts may be rolled over for as long as the facility is in place. We will therefore determine the precise timing of the principal repayments during such period according to our future levels of liquidity and cash needs.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## 6A. Directors and Senior Management

Below is a list of (i) the current Directors of the Company and (ii) the directors of the Company during 2009 until Scailex became the Company's principal shareholder on October 28, 2009:

## Current Directors

| Name of Director-Post Sale         | Age | Position                           |
|------------------------------------|-----|------------------------------------|
| Ilan Ben Dov (1)(3)                | 52  | Chairman of the Board of Directors |
| Dr. Michael J. Anghel (1)(2)(4)(5) | 71  | Director                           |
| Barry Ben -Zeev(2)(3)(4)(5)        | 57  | Director                           |
| Yaron Bloch(1)(6)                  | 45  | Director                           |
| Yacov Gelbard(1)                   | 62  | Director                           |
| Erez Gissin (2)(5)                 | 51  | Director                           |
| Dr. Shlomo Nass(1)(2)(5)           | 49  | Director                           |
| Osnat Ronen                        | 47  | Director                           |
| Yahel Shachar(1)(3)                | 47  | Director                           |

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- (1) Member of the Executive Committee of the Board of Directors.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.
- (4) External Director under the Companies Law.
- (5) Independent Director under NASDAQ rules
- (6) Appointed on behalf of Leumi Partners Ltd. See "Item 7A. Major Shareholders - Agreement between Scailex and Bank Leumi Ltd".

Directors prior to Scailex becoming the Company's principal shareholder on October 28, 2009

| Name of Director             | Age | Position                           |
|------------------------------|-----|------------------------------------|
| Fok Kin-ning, Canning        | 58  | Chairman of the Board of Directors |
| Dr. Michael J. Anghel (2)(4) | 71  | Director                           |
| Chan Ting Yu (1)(3)          | 59  | Director                           |
| Chow Woo Mo Fong, Susan      | 56  | Director                           |
| Uzia Galil                   | 84  | Director                           |
| Erez Gissin (1)(2)           | 51  | Director                           |
| Dennis Pok Man, Lui (1)(3)   | 59  | Director                           |
| Pesach Shachar (1)           | 76  | Director                           |
| Amikam Shorer (5)            | 42  | Director                           |
| Frank John Sixt              | 58  | Director                           |

Moshe Vidman (1)(2)(3)(4)

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Director

- 
- (1) Member of the Executive Committee of the Board of Directors.
  - (2) Member of the Audit Committee.
  - (3) Member of the Compensation Committee.
  - (4) External Director under the Israeli Companies Law.
  - (5) Director appointed by our Israeli founding shareholders.

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Ilan Ben Dov serves as Chairman of the Board of Directors of the Company and Suny Electronics Ltd and previously had served as Joint Chief Executive Officer for approximately fifteen years (until May 2009). Mr. Ben Dov serves as Chairman of the Board of Directors of Scailex Corporation Ltd. Mr. Ben Dov also serves as Chairman of the Board of Directors of Tau Tsuot Ltd. He also currently serves as a director of Tapuz Anashim Ltd., Derech HaLotus Ltd., Refuat Halotus Ltd., Tao Tsuot Real Estate Ltd., Ben Dov Investments Ltd., I. Ben Dov Investments Ltd., Harmony (Ben Dov) Ltd., as well as subsidiaries of Suny.

Dr. Michael J. Anghel became a director of Partner in March 2006. From 1977 to 1999, he led the Discount Investment Corporation Ltd. (of the IDB Group) activities in the fields of technology and communications. Dr. Anghel was instrumental in founding Tevel, one of the first Israeli cable television operators and later in founding Cellcom – the second Israeli cellular operator. In 1999 he founded CAP Ventures, an advanced technology investment company. From 2004 to 2005, Dr. Anghel served as CEO of DCM, the investment banking arm of the Israel Discount Bank. He has been involved in various technology enterprises and has served on the Boards of Directors of various major Israeli corporations and financial institutions including Elron, Elbit, Nice, Gilat, American Israeli Paper Mills, Maalot (the Israeli affiliate of Standard and Poor's) and Hapoalim Capital Markets. He currently serves on the Boards of Directors of Syneron Medical Ltd., Evogene Ltd., Gravity Visual Effects and Design Ltd., Dan Hotels Ltd, Orbotech Ltd. and the Strauss-Group Ltd. He is also the chairman of the Center for Educational Technology. Prior to launching his business career, Dr. Anghel served as a full-time member of the Recanati Graduate School of Business Administration of the Tel Aviv University, where he taught finance and corporate strategy. He currently serves as Chairman of the Tel Aviv University's Executive Program. Dr. Anghel holds a B.A. (Economics) from the Hebrew University in Jerusalem and an M.B.A. and Ph.D. (Finance) from Columbia University in New York.

Barry Ben-Zeev (Woolfson) has been providing strategic business consulting services since 2009. He served as the deputy-Chief Executive Officer and Chief Financial Officer of Bank Hapoalim in 2008. He joined the bank in 1978 and served in a variety of senior positions in the branch system and the international division including New York. He served in the following executive positions prior to becoming Deputy-Chief Executive Officer and Chief Financial Officer: Deputy-Chief Executive Officer, Head of International Private Banking during the years 2002-2006 and Deputy-Chief Executive Officer and Head of Client Asset Management during the years 2006-2007. He also served as a member of the Board of Directors of the Tel Aviv Stock Exchange during the years 2006-2007 and as the chairman of Bank Hapoalim Switzerland and Poalim Asset Management during the years 2002-2006. He received both his Bachelor's degree in Economics and his M.B.A from Tel-Aviv University.

Yaron Bloch serves as the Deputy Chief Executive Officer and Chief Investment Officer of Leumi Partners Ltda fully owned subsidiary of Bank Leumi. Prior to joining Leumi Partners, Mr. Bloch filled various positions at UBS Securities Israel between 2000 and 2008, including Chief Executive Officer between 2006 and 2008. Prior to joining UBS, Mr. Bloch held several positions in the Israeli capital market, including head of brokerage and Trading at Clal Finance and senior portfolio manager at the First International Bank of Israel. Mr. Bloch holds a bachelor degree in Economics from the Tel-Aviv University, and an M.B.A in finance also from the Tel-Aviv University.

Yacov Gelbard serves as Active Chairman of the Board of Directors of Tefron Ltd. Mr. Gelbard had served as Chief Executive Officers of Bezeq The Israel Telecommunication Corp. Ltd. for approximately two years and as Chief Executive Officers of Pelephone Communications Ltd. for approximately five years. Previously, he had served as Chief Executive Officer of Haribua Hachachol for seven years. Mr. Gelbard holds a bachelor's degree in accounting and economics from the Tel-Aviv University.

Erez Gissin has been a director of Partner since August 1998 and is currently a member of the Audit Committee. Since April 2005, Mr. Gissin has been a private investor through his management and investment company. For the prior five years, Mr. Gissin has been the CEO of IP Planet Network Ltd., an Israeli telecommunication company providing satellite broadband services. Previously, he was the Vice President of Business Development of the Eurocom Group,

an Israeli leader in telecom and internet products and services. Mr. Gissin holds a Bachelor of Science in Industrial Engineering from Tel Aviv University and an M.B.A degree from Stanford University, California.

Dr. Shlomo Nass is a senior partner at Dr. Shlomo Nass and Co. Ltd., and a court appointed Trustee and special manager of many companies. Dr. Nass also serves as a director on the Board of Directors of the following companies: Tao T'suot, Formula Systems (1985), NMC United Entertainment, Aviv Arlon Ltd, Click Software Technologies and others. Dr. Nass is also Vice Chairman of The Public Advisory Committee on Trade Levies. and served in the past as Chairman of the Board of Directors of The Israel Electric Corp. and Chairman of the Board of Directors of Ayalon Insurance Co. and a director in IBC-Industrial Buildings Corporation Ltd. (Mivnei Ta'asiya). Dr. Nass holds a B. Sc. degree in economics and accounting, an LL. B. degree and a Ph. D degree in law, all from Bar- Ilan University. Dr. Nass is also a Certified Public Accountant in Israel, a member of the Israel Bar and a Certified Information System Auditor by C.I.S.A. (USA). Dr. Nass is a lecturer of Companies Law at Bar Ilan University, IDC-Interdisciplinary Center Herziliya and at Sha'arei Mishpat College.

Osnat Ronen has served as a General Partner of Viola Private Equity since January 2008. From 2001 until 2007, Ms. Ronen was the Deputy Chief Executive Officer of Leumi & Co. Investment House, the private equity investment arm and investment banking services arm of the Leumi Group. Between 2004 and 2007, Mrs. Ronen was the Deployment Strategy & Execution Manager of the Bachar reform implementation of the Leumi Group. Prior to these positions, she was Deputy Head of the Subsidiaries Division of The Leumi Group from 1999 until 2001. Mrs. Ronen was also a member of several Boards of Directors on behalf of Leumi group including: Paz group, Direct Insurance Ltd, Leumi Card, Fox – Wizel Ltd, Arab Israeli Bank, Leumi Mortgage Bank and more. Currently, Mrs. Ronen serves as a Director of D-Pharm Ltd, Amiad Filtration Systems Ltd, Aeronautics Ltd, AudioCodes Ltd and Keshet Broadcasting Ltd. Mrs. Ronen holds an M.B.A. degree and a BSc degree in mathematics and computer science from the Tel Aviv University.

Yahel Shachar joined Scailex Corporation Ltd. in December 2001 as Chief Financial Officer. For the last four years Mr. Shachar serves as Chief Executive Officer of Scailex Corporation Ltd. Previously, Mr. Shachar served as Chief Operating Officer at BVR Technologies Ltd. for three years. Mr. Shachar hold an LL.M. degree from the Georgetown University in Washington, D.C., and an LL.B. degree from the Tel-Aviv University and he is a member of the Israeli and New York bar associations.

#### Senior Management

Below is a list of the Senior Management of the Company.

| Name of Officer | Age | Position   |
|-----------------|-----|--|
| David Avner*    | 58  | Chief Executive Officer                              |
| Emanuel Avner   | 49  | Chief Financial Officer                              |
| Eli Glickman    | 48  | Deputy Chief Executive Officer                       |
| Chaim Beker     | 65  | Vice President, Operations                           |
| Avi Berger      | 47  | Vice President, Technologies                         |
| Alon Berman     | 49  | Vice President, Internet and Broadband               |
| Michal Dana     | 54  | Vice President, Human Resources and Operations       |
|                 |     | Vice President, Corporate Development, Regulation &  |
| Oded Degany     | 45  | Investor Relations                                   |
| Ronit Rabin**   | 45  | Vice President, Information Technology               |
| Yacov Kedmi     | 58  | Head of Marketing, Growth & Growth Engines Division  |
|                 |     | Vice President, Legal, Chief Legal Counsel and Joint |
| Roly Klinger    | 49  | Company Secretary                                    |
| Erez Paz        | 47  | Vice President, Private Customers Division,          |
| Gil Rosenfeld   | 44  | Vice President, Business Customers Division          |



\* See also Appointments below.

\*\*As of March 1, 2010 Ronit Rabin replaced Gadi Gilon as Vice President Information Technology

David Avner was appointed Chief Executive Officer on January 1, 2007, having served as Deputy CEO since April 2005 and Chief Operating Officer since January 2006. Prior to joining the Company, Mr. Avner served as Senior Vice President of Operations and Member of the executive management at Amdocs Limited. Previously, he served at Amdocs as Group President Europe and LATAM & Member of Management. Prior to that, Mr. Avner served at Strauss Dairy Ltd. for 17 years, the last four as General Manager of the Dairy Division. He was also the Plant Manager of Strauss Ice Creams Ltd., and Manager of Information Systems at Strauss Dairy Ltd. Mr. Avner also served as Active Director of Yotvata Dairies Subsidiary since 1998. He holds a Bachelor of Arts degree in Mathematics/Computer Sciences and Philosophy from Haifa University in Israel and an MBA degree from the Technion, Israel Institute of Technology. David Avner and Emanuel Avner are not related.

Emanuel Avner was appointed Chief Financial Officer of Partner as of July 2006. Previously he served as Vice President and Chief Financial Officer of Blue Square – Israel Ltd., an Israeli food retailer traded on the New York Stock Exchange, since November 2003. Mr. Avner served from 1999 until October 2003 as Chief Financial Officer of Ericsson Israel. From 1993 to 1999, he served as Corporate Controller and Deputy CFO of Super Sol Ltd. Mr. Avner is a CPA (member of the American and Israeli Institute of Certified Public Accountants) and holds a Masters in Business Administration (1st Class Honors) and a BA in Economics and Accounting from the Hebrew University of Jerusalem. David Avner and Emanuel Avner are not related.

Chaim Beker was appointed as Vice President Operations in January 2004. Since 1998, Mr. Beker has served in a number of positions at Partner, such as: Administration and Purchasing Manager and Deputy Vice President Operations. From 1974 to 1984 Mr. Beker served as Vice President Administration of ARKIA. From 1984 he served as the CEO of several companies such as: Europcar, HaMashbir Agencies and Clal Israel. Mr. Beker holds a Bachelor's degree in Economics from the Hebrew University.

Avi Berger was appointed as Vice President, Technologies effective January 1, 2009, having served as Deputy Vice President Technologies since joining the Company in December 2007. Prior to joining the Company, Mr. Berger served as Vice President of Business Development in Tadiran communications Ltd. after having served for 21 years in the Israeli Defense Forces, rising to the rank of Colonel and Head of the C4I department in the C4I branch. Mr. Berger holds a bachelor degree in Electrical Engineering from Tel Aviv University, and a Master Degree in Electrical Engineering (Communication & Telecommunication) from UCLA.

Alon Berman was appointed Vice President, Internet and Broadband effective January 1, 2009. From October 2004 until December 31, 2008, Mr. Berman served as Vice President Technologies. Mr. Berman joined Partner as Deputy VP of Engineering in the Technologies division at the end of 2002, after serving 20 years in the Israeli Defense Forces, rising to the rank of Colonel and Head of Technical Department in the Communications Corps. Mr. Berman holds a bachelor degree in Electronic Engineering from the Technion – Israel Institute of Technology (1982), a Master Degree in Electronic Engineering (1991) and an MBA (1994) from Tel Aviv University.

Michal Dana serves as Vice President, Human Resources since May 2006. She worked at Amdocs since 2002, where she served first as the Director of Human Resources for Amdocs' European and Latin American division, and from 2005 as the Vice President of Human Resources, overseeing the worldwide customer business group for all human resource activities in Europe, Asia Pacific, and Latin America. From 2000 to 2002, Ms. Dana served as the Vice President of Human Resources for Bungee Communications, a start-up wireless broadband telecommunications company. Before that, she served from 1999 to 2000 as the Director of Human Resources for the Carmel Containers Systems Group, from 1996 to 1999 as the Director of Human Resources for the Caesarea Development Corporation, and from 1980 to 1996 as the Senior Human Resource Consultant for Pilat international consulting group. She holds a B.A. in Social Science from the Open University in Israel.



Oded Degany was appointed as Vice President Corporate Development, Strategy and Investor Relations effective January 1, 2008. Since March 2010, Mr. Degany serves as Vice President of Corporate Development, Regulation & Investment Relations. Mr. Degany joined Partner in May 2007, and effective January 1, 2008, has been responsible for strategy, investor relations and domestic and international carrier relations. Previously, he served as Vice President Business Development at ECI Telecom from 2006 to 2007 and as Vice President of Corporate Development and M&A at Amdocs (Israel) from 2000 to 2006. Before that, he served as Director of Business Development and Strategy at Clal (Israel) Ltd from 1997 to 2000, and as a Senior Business Analyst at National Consultants (NC)-Leumi & Co. Investment Bankers Ltd. from 1996 to 1997. Mr. Degany holds a B.A. degree in physics from the Technion-Israel Institute of Technology and an MBA degree from Tel Aviv University.

Eli Glickman, was appointed as Deputy CEO effective January 2010, after having served as Vice President, Customer and Private Sales Division and Deputy Vice President of the Customer Division since joining Partner in 2005. He served as the CEO from 2003 to 2005 of Exel-Multi Purpose Logistics. From 1999 until 2002 Mr. Glickman served as a Naval Attache at the Embassy of Israel in Washington D.C. US. Prior to that, he served in the Israeli Navy including a position as a commanding officer of the Israel Navy Commandos (SEALS) from 1997 to 1999, as well as other positions from 1979 until 1999. From 2004 until 2006, Mr. Glickman served as a director of Bank Ha'atzmaut. Mr. Glickman holds a Master of Science in Financial Management from the US Naval Postgraduate School and also studied International Executive Business Administration at Georgetown University in Washington, D.C.

Yacov Kedmi was appointed as Head of Marketing, Content and Growth Engines Division effective March 1, 2010 after having served as the Company's first Vice President of Marketing, Media and Content from 1998 until 2002. From 2004 until rejoining the Company, he founded and managed his own consulting firm. From 2002 until 2004 he served as the marketing coordinator at "3" – an HWL owned company. From 1994 until 1998 he served as a marketing consultant at MPV Communications. From 1992 to 1994, he served as VP Marketing of the Ma'ariv daily newspaper and from 1990-1992 he served as CEO of Mei-Eden a bottled water producer. Previously he served from 1979-1989 at Tavori Ltd. a soft drinks company, in a number of positions in the area of sales management and finally holding the position of VP Marketing.

Roly Klinger, Vice President, Chief Legal Counsel and Company Secretary, joined Partner in August 1998 as the Chief Legal Counsel and Joint Company Secretary. Roly Klinger was appointed as Vice President responsible also for Regulatory Affairs from November 1, 2007 and until March 1, 2010. From 1993, she served as Legal Advisor and Corporate General Secretary of Keshet Broadcasting Ltd., which holds an operating franchise for Israel's first commercial television channel. Ms. Klinger received an LL.B degree from Tel Aviv University and is admitted to the Israel Bar.

Erez Paz, was appointed as Vice President, Private Customers Division, effective March 1, 2010 after having served as Vice President Marketing and Content. Mr. Paz joined Partner in September 2007. He worked from 2004 to 2007 for Visa-CAL Ltd. as Vice President Marketing. Previously he worked for Coca Cola Israel from 1995 to 2004 during which time he held the positions of Vice President Marketing, Deputy of Vice President Marketing, On Premise Market Manager and Branch Manager. Mr. Paz holds a BSc in Industrial & Management Engineering from Ben Gurion University and an MBA from the University of Bradford, West Yorkshire, United Kingdom.

Ronit Rabin, was appointed as Vice President CIO of the IT Division effective March 1, 2010 when she joined the Company. Prior to joining the Company, Ms. Rabin served from 2006 as the VP IT Division and Business Technologies of VISA CAL. From 1983-2006, she served in the Israeli Defense Forces and held various positions in the programming field, including commander of the computer unit of the Navy from 2004-2006. Ms. Rabin holds a B.A in economics and logistics from Bar Ilan University and an M.B.A from Ben Gurion University.

Gil Rosenfeld, was appointed as Vice President, Business Customers Division effective March 1, 2010 after having served as Vice President Sales Division. Mr. Rosenfeld joined Partner in 2006. Previously, he worked for HP Israel and HP Europe 1998 to 2006 during which time he held the positions of Country Managing Director, Personal Systems Sales Director, Personal Systems Group Country Manager and Country Sales Manager. Before that he worked as the General Manager of Compaq Israel from 1996 to 1998. Before that he held the position of the Enterprise Systems Organizer, Enterprise District Sales Manager and Senior Sales Representative from 1990 to 1996 for CMS, the HP distributor in Israel. Mr. Rosenfeld received an Honours Degree in Business Information Systems and before that he received a Bachelor of Commerce degree from the University of Witwaters and, South Africa.

## Appointments

Under our license, at least 10% of our Board of Directors, or at least one director if the Board is comprised of up to 14 members, must be appointed by Israeli entities, as defined in the license. See “Item 4B. Business Overview – Regulation – Our Mobile Telephone License”.

Except for the foregoing, there is no arrangement or understanding with any major shareholders regarding the appointment of Directors or senior management. . With respect to the announcement by Scailex of an agreement with Bank Leumi Ltd regarding the appointment of a director on behalf of Bank Leumi Ltd, see “Item 7A. Major Shareholders – Agreement between Scailex and Bank Leumi Ltd”.

None of the above directors or members of senior management has any family relationship with any other director or senior manager of the Company. Senior management is selected by the CEO with the approval of the Board of Directors, for an indefinite term of office and may be removed by the Board of Directors at any time.

On March 16, 2010 the Board of Directors announced the departure of David Avner as Chief Executive Officer effective October 1, 2010. The Board of Directors intends to appoint Mr. Avner as an active vice-chairman on the Board of Directors, overseeing our strategy including mergers and acquisitions, non-cellular and future initiatives, network and information technology roadmap and regulation. Mr. Eli Glickman, the deputy CEO, is expected to replace Mr. Avner as Chief Executive Officer of the Company. In connection with his departure as Chief Executive Officer, Mr. Avner is entitled to certain benefits, including the following: (i) commencing on October 1, 2010, a twelve-month period including an advance notice period and adjustment period; (ii) the retention bonuses currently provided in Mr. Avner's employment agreement; (iii) a special bonus of 1.5 times Mr. Avner's monthly base salary, multiplied by the number of years of his employment by the Company, and (iv) the acceleration of all of Mr. Avner's unvested options under the Company's 2004 Stock Option Plan as of the date of the notice of termination of employment.

## 6B. Compensation

The aggregate compensation paid, and benefits in kind granted to or accrued on behalf of all our directors and senior management for their services in all capacities to the Company and its subsidiaries during the year ended December 31, 2009, was approximately NIS 33.26 million (US\$ 8.81 million). This amount included approximately NIS 1.757 million (US\$0.465 million) set aside or accrued to provide pension, retirement or similar benefits on behalf of all our senior management during the year ended December 31, 2009. The aggregate compensation amount does not include performance bonus payments made in 2009 with respect to the year ending December 31, 2008, but does include bonus payments deemed earned with respect to the year ending December 31, 2009, and paid in 2010. The aggregate compensation amount also does not include amounts expensed in 2009 (which were in addition to amounts expensed during 2008) to provide compensation and benefits in kind to or on behalf of senior management that terminated their employment relationship with the Company during 2009, which amounted to approximately NIS 37,110 (US\$ 9,830) expensed in 2009.

Bonus payments for our senior management are determined with respect to a given year based on quantitative and qualitative goals set for the Company as a whole, as well as on an individual basis. The individual goals for the Chief Executive Officer are set by the Compensation Committee and the Board of Directors, and the individual goals for senior management reporting to the CEO are set by the CEO in accordance with the overall Company objectives. Once the results of the year are known, and based on the extent to which corporate and individual goals have been met, bonus payments are determined in the discretion of the Compensation Committee and the Board of Directors and, with respect to senior management reporting to the CEO, in light of recommendations made by the CEO.

Compensation for senior management may also be provided in the form of stock options to purchase our ordinary shares. In 2009 options were granted to our senior management under the 2004 Employee Stock Option Plan to purchase up to 2,470,000 of our ordinary shares at an exercise price of NIS 60.74 (after dividend adjustment) per share with such options vesting at the earliest in August 2008. These options will expire by March 2019. For more information, see “Item 6E. Directors, Senior Management and Employees–Share Ownership–2004 Employee Stock Option Plan”.

In 2009, in connection with Hutchison Telecom’s sale of its controlling interest in the Company (see “Item 7A. Major Shareholders -- Principal Shareholder”), certain of the Company’s executive officers at the time of the sale also benefitted from two additional forms of compensation:

-based on information provided to us by Hutchison Telecom, Hutchison Telecom granted a one-time cash payment to selected employees of Partner, shortly following Hutchison Telecom’s sale of its controlling interest, in recognition of the contribution made by such employees to the value of the Company. According to Hutchison Telecom, the aggregate value of such one-time payment to the Company’s executive officers was NIS 18,432,550. and

-in order to encourage the Company's executive officers to remain with the Company following the sale by Hutchison Telecom of its controlling interest, the Company's Board of Directors, upon the recommendation and approval of its Audit and Compensation Committees, adopted a two-year retention plan on September 9, 2009. According to the terms of the plan, retention payments will be made to each of the Company's eligible executive officers at the first and second anniversaries of the date of adoption of the retention plan, provided the executive officer has not resigned for reasons other than for certain justified reasons, as specified in the retention plan. The amounts of the first and second potential retention payments are the same, and the maximum aggregate amount of all retention payments together is \$6.5 million.

#### 6C. Board Practices

References in this annual report to "external directors" are to those directors who meet the definition of external directors under the Israeli Companies Law, and references in this annual report to "independent directors" are to those directors who meet the definition of independence under applicable listing requirements of NASDAQ.

#### Terms of Directors

Directors are elected at the annual shareholders meeting to serve for three years, in the case of external directors under the Companies Law, or until the next annual meeting of the shareholders, in the case of other directors; or until their respective successors are elected and qualified, whichever occurs first, or in the case of Israeli directors, who are appointed by the founding Israeli shareholders upon a written notice signed by at least two of the founding Israeli shareholders who are the record holders of at least 50% of minimum Israeli holding shares, to the Company Secretary of his or her appointment, until their respective successors are elected upon such notice. An extraordinary meeting of the Company may elect any person as a director to fill an office which became vacant, or to serve as an additional member to the then existing Board of Directors, provided that the maximum number of seventeen directors is not exceeded, or to serve as an external director or an independent director, or if the number of the members of the Board of Directors is less than the minimum set in the Articles of Association. Any director elected in such manner (excluding an external director) shall serve in office until the coming annual meeting. The Articles of Association also provide that the Board of Directors, with the approval of a simple majority of the directors, may appoint an additional director to fill a vacancy or to serve as an additional member to the then existing Board of Directors provided that the maximum number of seventeen directors is not exceeded. The Company's Articles of Association provide that the Board of Directors may delegate all of its powers to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Companies Law. No director has a service contract with the company or its wholly-owned subsidiaries providing for benefits upon termination of employment. Our officers serve at the discretion of the Board of Directors or until their successors are appointed. See "Item 4. Information on the Company – 4B. Business Overview – Regulation – Our Mobile Telephone License." for description of additional requirements of the composition of our Board of Directors and the appointment of its members.

#### Alternate Directors

Our Articles of Association provide that a director may appoint any individual to serve as an alternate director. An alternate director may not serve as such unless such person is qualified to serve as a director. In addition, no person who already serves as a director or alternate director of Partner may serve as the alternate director of another director of Partner. Under the Companies Law, an alternate director shall have all of the rights and obligations of the director appointing him or her, except the power to appoint an alternate. The alternate director may not act at any meeting at which the director appointing him or her is present. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment is effective for all purposes and for an indefinite time, but will expire upon the expiration of the appointing director's term.





#### External Directors under the Companies Law

The Companies Law requires that Partner have at least two external directors on its Board of Directors. The election of an external director under the Companies Law must be approved by a general meeting of shareholders provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders voted at the meeting, vote in favor of such arrangement or (b) the total number of shares voted against such arrangement does not exceed one percent of the aggregate voting rights in the company.

The Companies Law further requires that at least one external director have financial and accounting expertise, and that the other external director(s) have professional competence, as determined by the company's Board of Directors. Under enacted regulations, a director having financial and accounting expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company's financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree or has other higher education, all in the main business sector of the company or in a relevant area for the Board of Directors position, or has at least five years experience in one or more of the following (or a combined five years' experience in at least two or more of the following): a senior position in the business management of a corporation with a substantial scope of business, a senior public officer or a senior position in the public service or a senior position in the field of the company's business.

Dr. Michael Anghel and Barry Ben- Zeev are our external directors under the Companies Law.

#### Financial Experts under the Companies Law

In accordance with the Companies Law, Partner has determined that the minimum number of directors with "accounting and financial expertise" that Partner believes is appropriate, in light of the particulars of Partner and its activities, is three. Under the Companies Law, only one of such "experts" is required to be an external director. In accordance with its determination, all of our directors have "accounting and financial expertise".

#### NASDAQ Corporate Governance Rules and Our Practices

Under NASDAQ Rule 5615(a)(3), a foreign private issuer such as the Company may follow its home country practice in lieu of the requirements of the NASDAQ Rule 5600 Series ("Corporate Governance Requirements"), with certain exceptions, provided that it discloses each requirement that it does not follow and describes the home country practice followed in lieu of such requirements. We describe below the areas where we follow our home country practice rather than the NASDAQ Corporate Governance Requirements:

~~In~~ order to comply with the conditions and restrictions imposed on us by the Ministry of Communications, including in our license, in relation to ownership or control over us, under certain events specified in our articles of association, the Board of Directors may determine that certain ordinary shares are dormant shares. Consequently, we received an exemption from NASDAQ with respect to its requirement (now under NASDAQ Rule 5640) that voting rights of existing shareholders of publicly traded common stock registered under Section 12 of the US Securities Exchange Act cannot be disparately reduced or restricted through any corporate action or issuance.

~~In~~ compliance with Israeli Companies Law, which requires that at least two members of the Board of Directors satisfy the conditions of "external directors", four of our nine Directors are external directors. Such external directors also satisfy the NASDAQ criteria for "independent directors". However, the requirement of NASDAQ Rule 5605(b), that a majority of the Board of Directors be comprised of independent directors, is not satisfied.



In compliance with Israeli Companies Law and our Articles of Association, the compensation committee is responsible, among other things, for evaluating and recommending to the Board of Directors (and to the audit committee, if so required under any applicable law) the total compensation package for the Company's Chief Executive Officer and all other officers. Our compensation committee consists of three Board of Directors members, one of whom is an external, independent director, rather than entirely of independent directors. As a result, the conditions of NASDAQ Rule 5605(d), that compensation for the CEO and all other executive officers must be determined or recommended to the Board by the independent directors or a compensation committee comprised solely of independent directors, are not satisfied.

As permitted under Israeli Companies Law, the Company's Board of Directors selects director nominees for shareholder approval based on a majority decision taken in accordance with the Company's Articles of Association. The conditions of NASDAQ Rule 5605(e), that director nominees must either be selected or recommended to the Board by the independent directors or a nomination committee comprised solely of independent directors, are thus not satisfied.

#### Executive Committee

Our Executive Committee comprises of members who are directors appointed by the Board of Directors from time to time. Subject to the provisions of the Companies Law, the Executive Committee is authorized to make all major decisions relating to the business affairs of Partner. The Executive Committee is authorized by the Board of Directors to approve contracts, commitments and other transactions regarding certain topics or up to a value determined by the Board of Directors from time to time. Ilan Ben-Dov, Dr. Michael Anghel, Yaron Bloch, Yacov Gelbard, Dr. Shlomo Nass and Yahel Shachar are members of our Executive Committee.

#### Audit Committee

The Companies Law requires public companies, including Partner, to appoint an audit committee comprised of at least three Board members, including all the company's external directors. The chairman of the Board of Directors, any director employed by the company or granting services to the company on a permanent basis, any controlling shareholder or any relative of a controlling shareholder may not be a member of the audit committee. The responsibilities of our audit committee under the Companies Law include identifying irregularities in the management of the company's business and approving related party transactions as required by law.

Pursuant to the rules of the Securities and Exchange Commission, or SEC, and the listing requirements of the NASDAQ Global Select Market, we are required to establish an audit committee consisting only of members who are independent of management, as defined by SEC rules and NASDAQ listing requirements. In accordance with the SEC and NASDAQ requirements, our audit committee is directly responsible for the appointment, compensation and oversight of our independent auditors.

The Board of Directors has determined that Dr. Michael Anghel, Barry Ben- Zeev, Erez Gissin and, Dr. Shlomo Nass are "audit committee financial experts" as defined by applicable SEC regulations, while the rest of our directors that are not audit committee members are financial experts under the Companies Law. See "Item 16A. Audit Committee Financial Expert" below.

Our audit committee consists of four Board of Directors members, Dr. Michael Anghel, Barry Ben- Zeev, Erez Gissin and Dr. Shlomo Nass, all of whom meet NASDAQ's definition of independent directors, and two of whom (Dr. Michael Anghel and Barry Ben- Zeev) meet the Companies Law's definition of external directors. None of them is an affiliated person of Partner or has received any consulting, advisory or other compensatory fee from Partner, other than in their capacity as directors of Partner.

## Compensation Committee

Our compensation committee consists of three Board of Directors members, of which one is an external, independent director. Subject to the requirements of the Companies Law, the compensation committee is responsible for evaluating and recommending to the Board of Directors (and to the audit committee, if so required under any applicable law) the total compensation package for the Company's Chief Executive Officer and all other officers; reviewing the results and procedures for the evaluation of the performance of other officers by the Company's Chief Executive Officer; making recommendations to the Board of Directors regarding any long-term incentive compensation or equity plans; and supervising the administration of the plans and periodically reviewing a comprehensive statement of executive compensation policy. Ilan Ben Dov, Barry Ben -Zeev and Yahel Shachar are members of the compensation committee.

### Security Committee

Pursuant to an amendment to our license from April 2005, a Board committee has been formed to deal with security matters. Only directors with the required clearance and those deemed appropriate by Israel's General Security Service may be members of this committee. The committee must consist of at least four members, who are subject to the clearance required from the Israeli General Security Service and at least one external director. Where any matter requires a Board of Directors' resolution and it is a security matter, then the committee should be authorized to discuss and to resolve such security matter and the resolution should bind the Company. However, in cases where the security matter concerned is a transaction with a related party, the transaction should be submitted for approval in accordance with the requirements of the applicable U.S. law, the Israeli Companies Law and any other applicable laws, provided that, in any case, only directors with security clearance can participate in any forum which will deal with security matters. On April 12, 2005, our Board of Directors approved the formation of the Security Committee to consist of four Israeli directors, which are subject to Israeli security clearance and security compatibility to be determined by the General Security Service. Michael Anghel, Yacov Gelbard, Erez Gissin and Yahel Shachar are members of the Security Committee, subject to clearance by the Israeli General Security Service.

### Internal Auditor

The Companies Law requires the Board of Directors of a public company to appoint an internal auditor nominated by the audit committee. A person who does not satisfy certain independence requirements may not be appointed as an internal auditor. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business procedures. Our internal auditor is Mr. Yehuda Motro, formerly the internal auditor of the Tel Aviv Stock Exchange.

### Fiduciary Duties of an Office Holder

The Companies Law governs the duty of care and duty of loyalty which an Office Holder has to the company. An "Office Holder" is defined in the Companies Law as a director, general manager, chief executive officer, executive vice president, vice president, or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other managers directly subordinate to the general manager.

The duty of loyalty requires the Office Holder to avoid any conflict of interest between the Office Holder's position in the company and personal affairs, and proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantages for him or herself or others. This duty also requires him or her to reveal to the company any information or documents relating to the company's affairs that the Office Holder has received due to his or her position as an Office Holder. The duty of care requires an Office Holder to act in a way that a reasonable Office Holder would act in the same position and under the same circumstances. This includes the duty to utilize reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information.

### Approval of Related Party Transactions

Generally, under the Companies Law the compensation of an Office Holder who is a director, or the compensation of an Office Holder who holds a controlling interest in the company, requires the approval of the audit committee, the Board of Directors and the general meeting of the shareholders of the company. The Companies Law also requires that a transaction between the company and its Office Holder and also a transaction between the company and another person in which an Office Holder has a personal interest, requires the approval of the Board of Directors if such transactions are not extraordinary transactions, although, as permitted by law and subject to any relevant stock

exchange rule, our Articles of Association allow the audit committee to approve, without the need for approval from the Board of Directors. If such transactions are extraordinary transactions (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company's profitability, assets or liabilities), in addition to audit committee approval, the transaction also must be approved by our Board of Directors, and, in certain circumstances, also by the shareholders of the company at a general meeting. Under the Companies Law, an extraordinary transaction between a public company and a person having control of the company or an extraordinary transaction between a public company and another person, in which a controlling member has a personal interest (including a private placement), must be approved by the audit committee, the Board of Directors and the shareholders, provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares voted by shareholders who do not have a personal interest in the matter and who are participating in the voting, are voted in favor of such arrangement (abstentions shall not be included in the total of the votes) or (b) the total number of shares of the shareholders referred to in clause (a) voting against such arrangement does not exceed one percent of the aggregate voting rights of the company.

The Companies Law requires that an Office Holder promptly disclose any direct or indirect personal interest that he or his affiliates may have, and all related material information known to him, in connection with any existing or proposed transaction by the company. If the Office Holder complies with such disclosure requirements, the company may approve the transaction in accordance with the provisions of its articles of association and the Companies Law. Under the Companies Law, if the Office Holder has a personal interest in the transaction, the approval must confirm that the transaction is not adverse to the company's interest.

In most circumstances, the Companies Law restricts Office Holders who have a personal interest in a matter which is considered at a meeting of the Board of Directors or the audit committee from being present at such meeting, participating in the discussions or voting on any such matter.

For information concerning the direct and indirect personal interests of certain of our Office Holders and principal shareholders in certain transactions, see "Item 7. Major Shareholders and Related Party Transactions."

#### Duty of a Shareholder

Under the Companies Law, a shareholder has a general duty to act in good faith towards the company and other shareholders and refrain from improperly exploiting his power in the company, particularly when voting in the general meeting of shareholders on (a) any amendment to the articles of association, (b) an increase of the company's authorized share capital, (c) a merger or (d) approval of transactions with affiliates which require shareholder approval. In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint an office holder in the company, is under a duty to act in fairness towards the company.

#### Indemnification

The Companies Law and our Articles of Association provide that Partner may indemnify an officer or director of Partner to the fullest extent permitted by the law. Without derogating from the foregoing, our Articles of Association specifically provide that Partner may indemnify an officer or director of Partner for liability or expense he incurs or that is imposed upon him as a result of an action or inaction by him (or together with other officers or directors of Partner) in his capacity as an officer or director of Partner as follows:

- (1) any financial liability incurred by, or imposed upon the officer or director in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by the court; or
- (2) reasonable litigation expenses, including legal fees, incurred by the officer or director or which he was ordered to pay by the court:
  - (a) in the context of proceedings filed against him by Partner or on Partner's behalf or by a third party; or



- (b) in a criminal proceeding in which he was acquitted; or
- (c) in a criminal proceeding in which he was convicted of a felony which does not require a finding of criminal intent.
- (3) reasonable litigation expenses, including legal fees, incurred by the officer or director due to such investigation or proceeding conducted against him by an authority authorized to conduct an investigation or proceeding, relating to an offense which does not require criminal intent, within the meaning of the relevant terms in any law, and which:
  - (a) ended without filing of an indictment against him and without the imposition of a financial liability as a substitute for a criminal proceeding; or
  - (b) ended without filing of an indictment against him but for which he was subject to a financial liability as a substitute for a criminal proceeding; or
- (4) any other liability or expense in respect of which it is permitted or will be permitted under applicable law to indemnify an officer or director of Partner.

The Companies Law and our Articles of Association also permit us to undertake in advance to indemnify an officer or director with respect for items (2) and (3) above, or any other matter permitted by law. The Companies Law and our Articles of Association also permit us to undertake in advance to indemnify an officer or director with respect to item (1) above, provided however, that the undertaking to indemnify is restricted to events which in the opinion of the Board of Directors are anticipated in light of Partner's activities at the time of granting the obligation to indemnify, and is limited to a sum or measurement determined by the Board of Directors to be reasonable in the circumstances. The undertaking to indemnify shall specify the events that, in the opinion of the Board of Directors are expected in light of the Company's actual activity at the time of grant of the indemnification and the sum or measurement which the Board of Directors determined to be reasonable in the circumstances.

The Companies Law combined with our Articles of Association also permit us to indemnify an officer or director after the fact for all kinds of events, subject to applicable law.

In no event may we indemnify an officer or director for:

- (1) a breach of the duty of loyalty toward us, unless the officer or director acted in good faith and had reasonable grounds to assume that the action would not harm us;
- (2) a breach of the duty of care done intentionally or recklessly ("pzizut") except for negligence;
- (3) an intentional act intended to unlawfully yield a personal profit; or
- (4) a criminal fine or a penalty imposed on him.

We have undertaken to indemnify our directors and officers, subject to certain conditions as aforesaid. We consider from time to time the indemnification of our directors and officers, which indemnification will be subject to approval of our Audit Committee, Board of Directors and in case of indemnification of directors, also of our shareholders.

Under the indemnification letters granted prior to the date of this report, the aggregate indemnification amount payable by us to all of the officers and directors and other indemnified persons pursuant to all letters of indemnification issued or that may be issued to them by the Company in the future will not exceed the higher of (i) 25% of shareholders equity and (ii) 25% of market capitalization, each measured at the time of indemnification.

Release

The Companies Law and our Articles of Association authorize the Company, subject to the required approvals, to release our directors and officers, in advance, from such persons' liability, entirely or partially, for damage in consequence of the breach of the duty of care toward us. Notwithstanding the foregoing, we may not release such person from such person's liability, resulting from any of the following events: (i) the breach of duty of loyalty towards us; (ii) the breach of duty of care made intentionally or recklessly ("pzizut") except for negligence; (iii) an intentional act intended to unlawfully yield a personal profit; (iv) a criminal fine or a penalty imposed upon such person; and (v) the breach of duty of care in distribution ("haluka"). We consider from time to time the release from certain liability of our directors and officers, which release will be subject to approval of our Audit Committee, Board of Directors and in case of release of directors, also of our shareholders.

## 6D. Employees

At December 31, 2009, we had 5,670 employees on full time equivalent basis, compared with 4,671 at December 31, 2008 and 4,130 at December 31, 2007. The number of employees at year-end 2009, 2008, and 2007, according to their activity, was as follows:

|                         | 2007         | December 31<br>2008 | 2009         |
|-------------------------|--------------|---------------------|--------------|
| Customer service        | 2,635        | 2,902               | 3,750        |
| Engineering             | 312          | 306                 | 322          |
| Sales and sales support | 479          | 569                 | 517          |
| Information technology  | 136          | 165                 | 249          |
| Marketing and Content   | 109          | 127                 | 135          |
| Finance                 | 81           | 114                 | 119          |
| Human resources         | 97           | 124                 | 125          |
| Remaining operations    | 282          | 364                 | 456          |
| <b>TOTAL</b>            | <b>4,130</b> | <b>4,671</b>        | <b>5,670</b> |

Substantially all of our employees have entered into employment contracts with us, terminable at will by either party.

Our employees are not covered by any company-specific collective bargaining agreement. However, we are subject to various Israeli labor laws and practices, as well as orders extending certain provisions of collective bargaining agreements between the Histadrut, currently the largest labor organization in Israel, and the Coordinating Bureau of Economic Organizations, the federation of employers' organizations. Such laws, agreements and orders cover a wide range of areas and impose minimum employment standards including, working hours, minimum wages, vacation and severance pay, and special issues, such as equal pay for equal work, equal opportunity in employment, and employment of women, youth, disabled persons and army veterans.

As of January 1, 2008, the Extension Order for Comprehensive Pension Insurance in the Economy applies (the "Pension Extension Order"). Pursuant to the Pension Extension Order, the employee's contributions and employer's contributions are ranked and increase each year until the year 2013. In 2008, the total deduction from the employee's salary for remunerations was 0.833%, and the total of employer's contributions was 0.833% for remunerations and 0.834% for severance. In 2009, the total deduction from the employee's salary for remunerations was 1.66%, and the total of employer's contributions was 1.66% for remunerations and 1.68% for severance. In 2013, deductions from the employee's salary will be 5% for remunerations, and employer's contributions will be a total of 5% for remunerations and 5% for severance. Some of our employees are eligible for an improved pension plan with terms of 5% employer's contributions and a deduction of 5% from the employee's salary. The more senior employees are entitled to a full pension insurance, in the amounts as follow (amounts vary according to choice of a pension fund or a manager's insurance fund): employer's contributions: 13.33%- 15.83% of the employee's salary and employee's deductions: 5% of the employee's salary.

We also offer to some of our employees the opportunity to participate in a "Continuing Education Fund," which functions also as a savings plan. Each of the participating employees contributes an amount equal to 2.5% of his salary and we contribute between 5% and 7.5% of such employee's salary.

According to the National Insurance Law, Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute. These contributions entitle the employees to health insurance and benefits in periods of unemployment, work injury, maternity leave, disability, reserve military service, and bankruptcy or winding-up of the employer. We have never experienced a strike or work stoppage and no material labor-related claims are pending. We believe that our relations with our employees are good.

Since October 2001, most of our employees participate in a Health Insurance Program which provides additional benefits and coverage which the public health system does not provide. Eligibility to participate in the policy does not depend on seniority or position.

#### 6E. Share Ownership

As of February 28, 2010, to the best of the Company's knowledge our directors and senior management's holdings do not exceed 1% of our outstanding ordinary shares. Directors and senior management do not have different voting rights than other shareholders of the Company.

As of February 28, 2010, our senior management held, in the aggregate, options to purchase up to 2,729,020 of our ordinary shares, of which 727,770 options were vested and exercisable as of that date. No individual senior manager holds options to purchase 1% or more of our outstanding ordinary shares. No options have been granted to our directors.

The table below sets forth the number of options held by our senior management according to exercise price and expiration date, as of February 28, 2010:

| Option exercise price<br>(NIS) | Number of options<br>held | Option expiration Date |
|--------------------------------|---------------------------|------------------------|
| 33.58                          | 31,250                    | May 2016               |
| 32.73                          | 56,250                    | July 2016              |
| 34.63                          | 21,250                    | September 2016         |
| 42.1                           | 250,000                   | January 2017           |
| 57.96                          | 152,500                   | June 2017              |
| 64.90                          | 65,000                    | December 2017          |
| 66.05                          | 42,770                    | February 2018          |
| 57.97                          | 2,110,000                 | March 2019             |

#### 2000 Employee Stock Option Plan

Our Board of Directors adopted a second employee stock option plan, the 2000 Employee Stock Option Plan (the "2000 Plan"), to promote our interests and those of our shareholders by providing our employees with appropriate incentives and rewards to encourage them to enter into and continue in our employ and to acquire a proprietary interest in our long-term success.

The 2000 Plan authorizes the issuance of options to purchase up to 4,472,222 ordinary shares. In November 2003, 419,930 options under this plan were transferred to the 2003 Amended Plan. As of December 31, 2009, options to purchase 3,774,722 ordinary shares had been exercised, options to purchase 36,500 ordinary shares were outstanding. On March 26, 2008, the Board of Directors terminated the 2000 Employee Stock Option Plan, and as a result, no further options will be granted under such plan. The termination of the 2000 Plan shall not adversely affect the terms of any option which has already been granted. The exercise prices of the outstanding options range from NIS 17.25 –

NIS 21.72.

Upon the occurrence of any merger, consolidation, reorganization or similar event, or other substantially similar corporate transaction or event, we are required to make such equitable changes or adjustments necessary to the number of shares subject to each outstanding option in order to prevent dilution or enlargement of the option holders' rights.

The 2000 Plan is administered by an Employee Stock Option Committee of the Board of Directors. Subject to the restrictions of the Companies Law, the Employee Stock Option Committee is authorized, among other things, to exercise all the powers and authorities, either specifically granted to it under the 2000 Plan or necessary or advisable for the administration of the 2000 Plan.

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In accordance with Section 102 of the Israeli Income Tax Ordinance (New Version), 1961 and the regulations promulgated thereunder, the options and the shares to be issued upon the exercise of options, which were granted prior to December 31, 2002, will be held for the benefit of the option holders by a trustee who will hold the outstanding options and any shares issued upon exercise of the options in trust on behalf of each participant for a period of not less than two years from the date an option is issued to the Trustee on behalf of such employee.

An option shall be exercised upon the instruction of an option holder to the Trustee. Twenty five percent of each option shall become vested on each of the first, second, third and fourth anniversaries of the date the holder of that option commenced his or her employment with us, unless another date for the commencement of the vesting schedule with respect to such option has been set by the Employee Stock Option Committee. The option holder may exercise all or part of his options at any time after the date of vesting but no later than the expiration of the exercise period, which will be fixed by the Employee Stock Option Committee and will not exceed ten years from the date of option grant.

If an option holder's employment with us is terminated because of his willful and continued failure to perform his duties and obligations to us or his willful engaging in misconduct injurious to us such that, in each case, the actions or omissions of the participant are sufficient to deny the participant a severance payment under the Israeli Severance Payment Law, 1963, his options will expire upon termination of employment. If an option holder's employment with us is terminated by us for any other reason, he may exercise his vested options during the remainder of their exercise period. If an option holder's employment is voluntarily terminated by the option holder, he may exercise his vested options during the 90 day period following the later of the date of termination and the date upon which the resulting shares may be freely sold. If an option holder's employment with us is terminated as a result of the retirement, death or disability of the option holder, he may exercise his vested options and the pro rata portion of options scheduled to vest in the year of termination during the remainder of their exercise period.

#### 2003 Amended Plan

In November 2003 we amended our stock option plans to conform with recent changes in the Israeli Income Tax Ordinance (New Version), 1961. The principal consequence of the amendment was our election to adopt the capital gains track under the new section 102 of the Income Tax Ordinance for all new options granted under the 2003 Amended Plan. This provides capital gains treatment for taxable income of employees from exercise of options and sale of ordinary shares, subject to certain conditions. The terms of the 2003 Amended Plan remain substantially the same as in the 2000 Plan.

Until November 2003 we granted options pursuant to our 1998 Plan and 2000 Plan. Following the amendment of these stock option plans in November 2003, any grant of options were subject to the terms of our 2000 Plan, as amended, referred to as the 2003 Amended Plan.

In connection with the adoption of the 2003 Amended Plan, we received an exemption from the requirement set out in NASDAQ's Marketplace Rule 4350(i)(1)(A) that listed companies receive shareholder approval when certain stock option or purchase plans are to be established or materially amended, or certain other equity compensation arrangement made or materially amended. This exemption was granted based on the fact that the NASDAQ requirement is inconsistent with applicable Israeli legal requirements, which require approval from a company's Board of Directors upon the establishment or amendment of such a plan unless directors or controlling shareholders participate in the plan in which case approval of the shareholders meeting would be required upon the grant of options to such directors or controlling shareholders.

In December 2003, we offered to employees who had previously been granted options under our stock option plans the right to exchange their unvested options for options with identical terms under the 2003 Amended Plan. Employees holding options to purchase 962,104 ordinary shares accepted this offer.



In December 2003, 419,930 options under the 2000 Plan were transferred to the 2003 Amended Plan. Of these options, options to purchase 195,000 ordinary shares have been exercised. All options granted under this plan have been exercised and no options remain outstanding. On March 26, 2008, the Board of Directors terminated the 2003 Amended Plan, and as a result, no further options will be granted under such plan.

In December 2002, we entered into an agreement with the Israeli tax authorities reducing the individual tax rate applicable to the taxable income of employees from the receipt and exercise of their options. In exchange, we agreed to defer the deduction of the expense corresponding to such taxable income for a period of four years from the date on which we commence paying income taxes. The agreement applies to employees who received options under the 1998 Plan and joined the agreement, and relates to (1) options that are exercised by December 31, 2002 and (2) options that vest by December 31, 2003 and are exercised by May 31, 2004. In each case, the trustee must have held the options for a period of 24 months from the date on which they were granted. See Note 8(f) to our consolidated financial statements.

In December 2003, we entered into an agreement with the Israeli tax authorities under which the terms of the above-mentioned agreement in December 2002 apply also to employees who received options under the 2000 Plan.

#### 2004 Share Option Plan

Under the 2004 Share Option Plan (“the 2004 plan”), 5,775,000 ordinary shares were initially reserved for issuance upon the exercise of 5,775,000 options to be granted without consideration to employees, directors, officers and advisors. The options will be granted to employees under the provisions of the capital gain’s tax route provided for in Section 102 of the Israeli Income Tax Ordinance. The options usually vest in four equal annual batches, provided that the Board of Directors or the Compensation Committee has not resolved otherwise. The option holder may exercise all or part of his options at any time after the date of vesting but no later than the expiration of the exercise period, which will be fixed by the Employee Stock Option Committee and will not exceed ten years from the date of option grant.

Upon the occurrence of any merger, consolidation, reorganization or similar event, or other substantially similar corporate transaction or event, we are required to make such equitable changes or adjustments necessary to the number of shares subject to each outstanding option in order to prevent dilution or enlargement of the option holders’ rights.

The 2004 Plan is administered by the Compensation Committee of the Board of Directors. Subject to the restrictions of the Companies Law, the Compensation Committee is authorized, among other things, to exercise all the powers and authorities, either specifically granted to it under the 2004 Plan or necessary or advisable for the administration of the 2004 Plan.

If an option holder’s employment with us is terminated because of his willful and continued failure to perform his duties and obligations to us or his willful engaging in misconduct injurious to us such that, in each case, the actions or omissions of the participant are sufficient to deny the participant a severance payment under the Israeli Severance Payment Law, 1963, his options will expire upon termination of employment. If an option holder’s employment with us is terminated by us for any other reason, he may exercise his vested options during the remainder of their exercise period. If an option holder’s employment is voluntarily terminated by the option holder (other than by reason of retirement, death or disability), he may exercise his vested options during the 90-day period following the later of the date of termination and the date upon which the resulting shares may be freely sold. If an option holder’s employment with us is terminated as a result of the retirement, death or disability of the option holder, he may exercise his vested options and the pro rata portion of options scheduled to vest in the year of termination during the remainder of their exercise period.



In connection with the adoption of the 2004 Plan, we received an exemption from the requirement set out in NASDAQ's Marketplace Rule 4350(i)(1)(A) that listed companies receive shareholder approval when certain stock option or purchase plans are to be established or materially amended, or certain other equity compensation arrangement made or materially amended. This exemption was granted based on the fact that the NASDAQ requirement is inconsistent with applicable Israeli legal requirements, which require approval from a company's Board of Directors upon the establishment or amendment of such a plan unless directors or controlling partners participate in the plan in which case approval of the shareholders meeting would be required upon the grant of options to such directors or controlling partners.

Following an amendment of the 2004 Plan, the Board of Directors may amend the 2004 Plan, subject to other sections of the Plan and the rules and/or regulations of any stock exchange applicable from time to time to the Company, by reason of their applicability to its shareholders or otherwise; provided, that (i) any alterations to the terms and conditions of the Plan which are of a material nature or to the Options granted (except where the alterations take effect automatically under the existing terms of the Plan); and (ii) any change to the authority of the Board of Directors of the Company or the Compensation Committee in relation to any alteration to the terms of the Plan. The Board of Directors may, at any time and from time to time, terminate the 2004 Plan in any respect, subject to any applicable approvals or consents that may be otherwise required by law, regulation or agreement, including by reason of their applicability to the shareholders or otherwise, and provided that no termination of the 2004 Plan shall adversely affect the terms of any option which has already been granted.

On March 26, 2008, the 2004 Share Option Plan was amended by the Board of Directors to include the following material amendments: to increase the total number of our shares reserved for issuance upon exercise of all options granted under the 2004 Share Option Plan by 8,142,000 shares; to introduce the acceleration of option vesting and exercisability in the event of a change of control or voluntary winding up; and to allow, upon compliance with certain conditions, the “cashless” exercise of vested options, according to which, upon exercise by the option holder of a given number of options, but without payment of the exercise price, the option holder would receive from the Company only the number of shares whose aggregate market value equals the economic gain which the option holder would have realized by selling all the shares purchased at their market price, net of the option exercise price. These amendments were approved by the shareholders of the Company, and by the shareholders of Hutchison Telecom and Hutchison Whampoa, respectively.

As of December 31, 2009 options to purchase 4,459,041 ordinary shares had been exercised, options to purchase 5,086,387 shares were outstanding and options to purchase 4,178,514 ordinary shares were available for grant under the 2004 Plan. The exercise price of the options is based on the fair market value of the Company’s shares at the time of grant. The fair market value of an ordinary share on any date will be equal to the average of the closing sale price of ordinary shares during the preceding 30 trading days, as such closing sale price is published by the Tel-Aviv Stock Exchange. The exercise prices of outstanding options as of December 31, 2009, range from NIS 26.74 to NIS 66.25. Options that had been forfeited or expired unexercised may be regranted. On February 23, 2009, the 2004 Share Option Plan, was further amended by the Board of Directors (the “Plan Amendments”) to include the following two material amendments: (i) with respect to options granted on or after February 23, 2009, the date of approval of the Plan Amendments by the Board of Directors (the “Board Approval”), a dividend-adjustment mechanism, reducing the exercise price of such options following each dividend distribution in the ordinary course in an amount in excess of 40% (forty percent) or of another percent resolved by the Board of Directors, of the Company’s net income for the relevant period (“the Excess Dividend”) by an amount equal to the gross amount of the Excess Dividend per Ordinary Share. (ii) with respect to all options granted under the 2004 Share Option Plan, a dividend adjustment mechanism reducing the exercise price of such options following each dividend distribution other than in the ordinary course, by an amount which the Board of Directors considers as reflecting the impact such distribution will have or will likely to have on the trading price of the Ordinary Shares, and provisions authorizing the Board of Directors to allow option holders to exercise their vested options during a fixed period, through a cashless exercise procedure, pursuant to which each vested option will entitle its holder to the right to purchase Ordinary Shares (subject to the adjustments). The Plan Amendments were approved by our shareholders. On February 9, 2010 the Board of Directors approved the cashless exercise procedure according to which, option holders who were granted options on or after February 23, 2009 would be allowed to exercise their options only through a cashless exercise procedure and those granted options before February 23, 2009 would be able to choose between the cashless exercise procedure and the regular option exercise procedure.

On December 27, 2009, following a resolution to distribute a special dividend in the amount of NIS 1.4 billion (as a result of a capital reduction), the Board of Directors approved a reduction to the exercise price in an amount

equivalent to 50% of the special dividend per share.

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## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## 7A. Major Shareholders

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares as of January 31, 2010, with respect to each person who we believe to be the beneficial owner of 5% or more of our ordinary shares. Except where otherwise indicated, we believe, based on information furnished to us by the principal shareholders, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such ordinary shares. None of our major shareholders has any different voting rights than any other shareholder. See “Item 10B. Memorandum and Articles of Association – Rights Attached to Shares”.

| Name  | Shares<br>beneficially<br>owned | Issued<br>Shares (1)<br>% | Issued and<br>Outstanding<br>Shares (1)<br>% |
|---|---------------------------------|---------------------------|--|
| Scailex Corporation Ltd, together with Suny Electronics Ltd (2) | 71,411,806                      | 44.93                     | 46.23  |
| Treasury shares (3)   | 4,467,990                       | 2.81                      | –  |
| Public (4)  | 83,072,005                      | 52.26                     | 53.77  |
| Total   | 158,951,801                     | 100.00                    | 100.00                                       |

(1) As shown above and used throughout this annual report, the term “Issued and Outstanding Shares” does not include any treasury shares held by the Company. Treasury shares, which are included in “Issued Shares”, have no rights under the Israeli Companies Law, as long as they are held by the Company.

(2) Scailex, an Israeli corporation listed on the Tel Aviv Stock Exchange, held on January 31, 2010, 44.82% of our Issued and Outstanding shares and voting rights. Scailex is a majority owned subsidiary of Suny, an Israeli corporation listed on the Tel Aviv Stock Exchange which is indirectly controlled by Mr. Ilan Ben-Dov. Suny has acquired 1.41% of our Issued and Outstanding shares and total voting rights. As a result of his indirect control of Scailex and Suny, Mr. Ilan Ben-Dov indirectly controlled 46.23% of our Issued and Outstanding shares and total voting rights as of January 31, 2010. See “Item 3D. Risk Factors – 46.23% of our shares and voting rights are indirectly controlled by a single shareholder”.

(3) Treasury shares do not have a right to dividends or to vote.

(4) The shares under "Public" include 5,884,586 shares held by Israeli entities from among our founding shareholders and their approved substitutes. These shares, together with 2,173,126 shares held by Suny, which are included in the table together with the Scailex holdings, constitute 5.07% of our issued shares (approximately 5.22% of the the Issued and Outstanding Shares). Under the terms of our mobile telephone license, Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued and outstanding share capital and of each of our means of control. “Israeli entities” are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by individuals who are citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Israeli Prime Minister or Minister of Communications.

The shares under "Public" also include 7,677,037 shares held by Leumi Partners Ltd. which constitutes 4.83% of the Issued Shares (approximately 4.97% the Issued and Outstanding Shares).

As of January 31, 2010, to the best of the Company's knowledge, our directors and senior management's holdings do not exceed 1% of our outstanding ordinary shares and have been included under "Public" in the table above. For information regarding options held by our senior management to purchase ordinary shares, see "Item 6E. Share Ownership".

By letter dated March 8, 2010, we were notified by Capital Research and Management Company ("CRMC"), a U.S.-based investment adviser, that it held 9,534,245 shares, including shares represented by ADRs, amounting to 6.16% of our issued and outstanding shares, on behalf of one or more of the funds under the management of CRMC. CRMC stated in its letter that it does not own the shares on its own behalf, but that the funds managed by CRMC are the legal owners of the shares.

We are not aware of any arrangements that might result in a change in control of our Company.

#### Principal Shareholder

On October 28, 2009, Advent Investments Pte Ltd., a wholly-owned subsidiary of Hutchison Telecom, sold its entire controlling interest in the Company to Scailex. Scailex, an Israeli corporation listed on the Tel Aviv Stock Exchange, is a majority owned subsidiary of Suny, which is also an Israeli corporation listed on the Tel Aviv Stock Exchange and indirectly controlled by Mr. Ilan Ben-Dov. In separate transactions, Suny acquired 1.41% of our issued and outstanding shares and total voting rights. As a result of his indirect control of Scailex (which held 44.82% of our issued and outstanding shares and voting rights as of January 31, 2010) and Suny, Mr. Ilan Ben-Dov indirectly controlled 46.23% of our Issued and Outstanding shares and total voting rights as of January 31, 2010.

As our largest shareholder, Scailex, who is also one of our main handset suppliers, has the ability to influence our business through its ability to virtually control all actions that require majority approval by the shareholders and through its representatives on our board of directors. Scailex is not obligated, however, to provide us with financial support or to exercise its rights as a shareholder in our best interests or in the best interests of our minority shareholders and noteholders, and it may engage in activities that conflict with such interests. If the interests of Scailex conflict with the interests of our other shareholders and noteholders, those shareholders and noteholders could be disadvantaged by the actions that this shareholder chooses to pursue. In addition, Scailex may cause our business to pursue strategic objectives that may conflict with the interests of our other shareholders and noteholders. See "Item 3D. Risk Factors – 46.23% of our shares and voting rights are indirectly controlled by a single shareholder".

See also "Item 7B. Related Party Transactions – Relationship Agreement" below for a description of the Restatement of the Relationship Agreement among Scailex and the founding Israeli shareholders.

#### Agreement between Scailex and Bank Leumi Ltd

On August 23, 2009, Scailex announced that, in the context of its anticipated acquisition from Advent, a wholly-owned subsidiary of Hutchison Telecom, of Advent's entire controlling interest in the Company, Scailex had entered into an agreement on August 21, 2009 (the "Leumi Sales Agreement"), with Bank Leumi Ltd ("Bank Leumi"), according to which Bank Leumi, or a company on its behalf, would purchase from Scailex 7,677,037 shares of the Company, representing 4.99% of the Company's Issued and Outstanding shares. The shares to be sold to Bank Leumi would be part of the 78,940,104 shares of the Company subject to Scailex's share purchase agreement signed with Advent on August 12, 2009, and announced by Scailex on August 13, 2009. Scailex announced the closing of the Leumi Sales Agreement on October 28, 2009.

According to Scailex's announcement, the Leumi Sales Agreement includes customary rights for the protection of minority shareholders, and provides Bank Leumi with a "tag along" right in the event Scailex sells its interest in the

Company in a manner that would cause Scailex to lose control of the Company. In addition, for as long as Bank Leumi holds at least 4,230,832 of the Company shares it purchased from Scailex, Scailex must use its voting power in the Company to cause the election of at least one director recommended by Bank Leumi.

In addition, the announcement stated that Bank Leumi has a veto right according to which, as long as it holds the Company shares described above, the following matters may not be proposed to the Company's Board of Directors or shareholders (subject to applicable law), without Bank Leumi's prior written approval: (i) dissolution, split, or reorganization of the Company; (ii) a merger of the Company other than on market conditions; (iii) a material change in the Company's business; (iv) activities that could cause the Company's shares to be delisted from trading on either the Tel Aviv Stock Exchange or NASDAQ; (v) the allocation or private issuance of shares and/or options and/or convertible securities in Scailex an amount that exceeds one percent of the Company's issued and outstanding share capital (excluding options allocated to its employees and only after Bank Leumi has been consulted); and (vi) the appointment of an external auditor to the Company which is not one of the five largest accounting firms.

Scailex's announcement also stated that Scailex undertook to use its means of control in the Company to ensure that any related-party transaction will be brought to the Company's Board of Directors for approval; decisions regarding related-party transactions shall be made only after approval by a majority of the Board members that were not appointed upon Scailex's recommendation; and related-party transactions shall not be executed if they are not on market terms. According to the announcement, the Leumi Sales Agreement states that if a related-party transaction is brought for approval at a meeting of Company shareholders, each of Scailex and Bank Leumi may vote according to its own judgment.

The announcement stated that, in compliance with and subject to Scailex's legal obligations as a controlling shareholder in the Company, Scailex undertook to exercise its means of control in the Company to convene meetings of the Audit Committee, the Board of Directors, and annual shareholders' meetings; in which a decision will be discussed to grant Bank Leumi registration rights under the same terms as those granted in the registration rights agreement dated October 26, 1999, between the Company, Advent and certain other additional shareholders, for a period of 5 years after completion of the Leumi Sales Agreement (and if not possible, then under materially similar commercial terms); and to use Scailex's means of control in the Company to obtain the above decision at the annual meeting of the Company's shareholders. If registration rights are granted to the shares that are sold, after the completion of the Sales Agreement the sold shares shall be transferred to Bank Leumi together with the said registration rights.

#### Other

On January 31, 2010, 13,616,837 ADSs (equivalent to 13,616,837 ordinary shares) or approximately 8.81% of our total issued and outstanding ordinary shares, were held of record by 51 registered holders in the United States. Additionally, on January 31, 2010, there were approximately 36 holders of record of our ordinary shares. Of these holders, none had a registered address in the United States, although certain accounts of record with registered addresses other than in the United States may hold our ordinary shares, in whole or in part, beneficially for United States persons. We are aware that many ADSs and ordinary shares are held of record by brokers and other nominees and accordingly the above numbers are not necessarily representative of the actual number of persons who are beneficial holders of ADSs and ordinary shares, or the number of ADSs and ordinary shares beneficially held by such persons.

#### 7B. Related Party Transactions

##### Relationship Agreement

Our founding Israeli shareholders are parties to a Relationship Agreement with Scailex in relation to its direct holdings of our shares and the rights associated with such holdings. See Exhibit 4.(a).1.1 to this annual report.

##### License Conditions: Required Minimum Israeli and Founding Shareholder Percentages

The parties to the Relationship Agreement have agreed that they shall at all times comply with the terms of our license requiring that our founding shareholders or their approved substitutes hold in aggregate at least 26% of our means of control, and that our Israeli founding shareholders or their approved substitutes (from among the founding shareholders and their approved substitutes) hold at least 5% of our means of control. See "Item 4B. Business Overview—Regulation—Our Mobile Telephone License—License Conditions."

##### Compulsory Transfer in the Event of Default



If a party to the Relationship Agreement commits certain events of default described in the agreement, it may be required to offer its shares to the other parties on a pre-emptive basis. Events of default for this purpose include a breach of the Relationship Agreement which has a material adverse effect on Partner, and in the case of such breach, the purchase price at which the shares are to be sold will be market value less a 17.5% discount.

## Term and Termination

The Relationship Agreement continues in full force and effect until we are wound up or cease to exist unless terminated earlier by the parties. The Relationship Agreement will terminate in relation to any individual party after it ceases to hold any share beneficially if it is required to comply with the minimum holding requirements for founding shareholders or Israeli founding shareholders, as applicable, and the transfer of the shares was not made in breach of the Relationship Agreement.

## Related agreement among Israeli founding shareholders

A shareholders' agreement among the Israeli founding shareholders, or their approved substitutes, established the procedures, rights and obligations with respect to the appointment of the Israeli director. See "Item 6A. Directors and Senior Management – Appointments".

## Transactions with Affiliates

### Agreements with affiliates of Hutchison Telecom

During 2009 the Company entered into various agreements with Hutchison Telecom in the ordinary course of business for the purchase of certain products or services or obtaining licenses. Each such related party agreement was subject to review by the Audit Committee pursuant to normal Company procedure. In each case the Audit Committee concluded that the agreements were on market terms and would not have a substantial effect on the Company's results of operations or obligations.

As of October 28, 2009, upon Scailex becoming our principal shareholder, Hutchison Telecom and its affiliates were no longer related parties with Partner.

### Agreements with affiliates of Scailex

On December 27, 2009, the Company's Audit Committee and Board of Directors approved an extension of the Company's headquarters lease agreement with Mivnei Ta'asiya Ltd ("Mivnei Ta'asiya"). Mr. Ilan Ben Dov, who is the controlling shareholder of Scailex, our principal shareholder, is also the controlling shareholder of Tau Tshuot Ltd ("Tau"), which holds 4.9% of the issued share capital of Mivnei Ta'asiya.

Under the extension, the lease period for all rented office space shall be consolidated and extended for seven years (until 31 December 2016). In consideration of the extension of the lease agreement, a discount of 5% has been granted on the rental fees. As a result, the lease fees for 2010 shall be NIS 24 million.

Partner shall have the right to extend the lease period by an additional three or five years. Should Partner choose to extend the lease by an additional five years, the lease fee shall be reduced by 2.5%. Partner also has the right to shorten the lease period regarding all or part of the leased properties and terminate the lease on December 31, 2014.

On December 28, 2009, our Audit Committee and Board of Directors approved the existing perennial agreement with Scailex, our principal shareholder as of October 28, 2009. Under the agreement, we will purchase, from time to time, cellular handsets, accessories and spare parts which are manufactured by Samsung Electronics Ltd. and imported into Israel by Scailex. See "Item 10C. Material Contracts".

## Registration Rights

We have entered into a registration rights agreement with Scailex, our principal shareholder, in which we granted our principal shareholder the right to require us to register ordinary shares held by them under the US Securities Act. We have agreed that, upon request from our principal shareholder, we will file a registration statement under the US Securities Act to register ordinary shares held by them, subject to a maximum of one request in any 6-month period. There is no limit to the number of registrations that can be requested under the agreement. The minimum amount of shares that must be included in any registration requested under this agreement is 2.65% of our outstanding shares. We have also granted our principal shareholder the right to include their ordinary shares in any registration statement covering offerings of ordinary shares by us. The registration rights agreement will terminate upon the earlier of October 27, 2014 (five years after the date of the Change of Control transaction) and such time as the holder can sell its ordinary shares into the United States public market pursuant to an exemption from the registration requirements of the Securities Act without regard to holding period, volume or manner-of-sale limitations.

#### Agreements with affiliates of Eurocom

During 2009 we purchased a substantial portion of our Nokia handsets from Eurocom one of our founding Israeli shareholders until recently. On November 19, 2009, Eurocom sold their shares in the Company to Suny Electronics Ltd. The Company believes that the purchase transactions of the handsets from Eurocom were done at arms length and on market terms. If need be, Nokia handsets can be purchased from both Israeli and international suppliers and thereby reduce the dependency on Eurocom. These purchase prices may be higher than the purchase prices from Eurocom. As part of the Hutchison group, the Company benefited from conditions and prices of Nokia handset purchases that were agreed upon between Hutchison and Nokia. Since the Company was acquired by Scailex and is no longer part of the Hutchison group, the purchase conditions from Eurocom may be updated. Additional conditions and agreements between the Company and Eurocom are set from time to time both orally as well as in writing.

#### Other Agreements

The Company undertook to pay Mr. Amikam Cohen, who retired from his functions as chief executive officer on January 1, 2007, and from the Company on April 1, 2007, as part of his special retirement compensation, a non-compete payment of US\$0.6 million, in five equal installments, each payment to be made at the end of a six-month period over two and a half years starting in November 2007.

#### 7C. Interests of Experts and Counsel

Not applicable.

### ITEM 8. FINANCIAL INFORMATION

#### 8A. Consolidated Financial Statements and Other Financial Information

Audited financial statements for the three fiscal years ended December 31, 2009, are included under “Item 18. Financial Statements.”

#### Legal and Administrative Proceedings

In addition to the legal proceedings discussed below, we are party to a number of legal and administrative proceedings arising in the ordinary course of our business. We do not currently expect the outcome of such matters individually or in the aggregate to have a material adverse effect upon our business and financial condition, results of operations and cash flows.

In addition to ordinary course proceedings described above, we have been named as defendants in a number of civil and criminal proceedings related to our network infrastructure and consumer claims regarding, for example, our tariff plans and billing methods, which may result in civil liabilities or criminal penalties against us or our officers and directors. Plaintiffs in some of these proceedings are seeking certification as class actions. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company’s assessment of risk is based both on the advice of counsel and on the Company’s estimate of the probable settlements amount that are expected to be incurred, if such a settlement will be agreed by both parties.



See “Item 3D. Risk Factors” for a description of the main litigations and proceedings in which we have been involved. See also Note 17 to our consolidated financial statements.

During 2009, two criminal proceedings were brought against us concerning the erection of network sites without building permits. As of December 31, 2009, 9 criminal proceedings were pending against us concerning the erection of network sites without building permits, one of which was pending against our officers and directors. We are currently negotiating with the relevant local authorities to reach a settlement regarding the relocation of affected sites or obtaining building permits for those sites. The total amount of fines paid in 2009 was approximately NIS 103,000. Settlements of previous criminal proceedings brought against us resulted in Partner, but not its officers or directors, admitting guilt and paying a fine, and also resulted in the imposition of demolition orders for the relevant sites, the execution of which have been stayed for a period of time to allow us to obtain the necessary permits or to relocate the relevant network site.

#### Dividend Distribution Policy

Our Articles of Association allow for our Board of Directors to approve all future dividend distributions, without the need for shareholder approval, subject to the provisions governing dividends under the Companies Law. We first paid a dividend to our shareholders for the year 2005. See “Item 5. Liquidity and Capital Resources – Dividend payments and share repurchases.”

Our dividend policy for 2009 provided for an 80% dividend payout ratio of the annual net income, the same as with respect to the year 2008. For the year 2009, the Company distributed dividends and declared a final dividend on March 16, 2010 (with respect to the fourth quarter of 2009), which in the aggregate represent a payout ratio of approximately 93% of our annual net income for the year. On March 16, 2010 the Board of Directors approved a dividend policy for 2010 targeting at least 80% payout ratio of annual net income for the year ending December 31, 2010. See “Item 3D. Risk Factors” for risks relating to future payments of dividends.

We intend to pay any dividends in shekels. Under current Israeli regulations, any dividends or other distributions paid in respect of ordinary shares may be freely repatriated in non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on or withheld from such dividends. Because exchange rates between the shekel and the US dollar fluctuate continuously, a holder of ADSs will be subject to currency fluctuation generally and, particularly, between the date when dividends are declared and the date dividends are paid.

#### 8B. Significant Changes

No significant change has occurred since the date of our financial statements, except as set forth under Item 5D. Trend Information – Recent Developments”.

## ITEM 9. THE OFFER AND LISTING

## 9A. Offer and Listing Details

Our capital consists of ordinary shares, which are traded on the Tel Aviv Stock Exchange under the symbol “PTNR”. American Depositary Shares (“ADSs”), each representing one of the Company’s ordinary shares, are quoted on the NASDAQ Global Market under the symbol “PTNR”. Our ADSs were listed on the London Stock Exchange until March 12, 2008, when we discontinued the listing of our ADSs on that exchange. The ADSs are evidenced by American Depositary Receipts (“ADRs”) originally issued by JPMorgan Chase, as depository under a Deposit Agreement, dated as of November 1, 1999, among the Company, JPMorgan Chase and registered holders from time to time of ADRs. ADSs were first issued in October 1999. Since March 2006, the Bank of New York has served as our depository for ADSs.

The tables below set forth, for the periods indicated, the reported high and low closing quotations, not adjusted for dividends, based on information supplied by the National Association of Securities Dealers, Inc., and information supplied by the Tel Aviv Stock Exchange.

|                               | NASDAQ<br>(\$ per ADS) |       | Tel Aviv Stock Exchange<br>(NIS per ordinary share) |       |
|-------------------------------|------------------------|-------|---|-------|
|                               | High                   | Low   | High  | Low   |
| 2005                          | 9.60                   | 7.13  | 41.82   | 32.70 |
| 2006                          | 12.52                  | 7.20  | 51.92   | 33.85 |
| 2007                          | 22.23                  | 11.50 | 85.20   | 48.42 |
| 2008                          | 24.62                  | 15.15 | 85.48   | 58.40 |
| <hr/>                         |                        |       |   |       |
| 2009                          |                        |       |   |       |
| First Quarter                 | 16.69                  | 13.46 | 66.01   | 57.30 |
| Second Quarter                | 18.00                  | 14.80 | 71.52   | 62.01 |
| Third Quarter                 | 19.83                  | 16.90 | 74.00   | 67.00 |
| Fourth Quarter                | 20.59                  | 17.91 | 72.20   | 69.16 |
| September 2009                | 19.83                  | 18.80 | 74.00   | 70.12 |
| October 2009                  | 20.18                  | 18.51 | 74.40   | 70.90 |
| November 2009                 | 19.20                  | 18.23 | 72.35   | 69.16 |
| December 2009                 | 20.59                  | 18.77 | 77.20   | 71.80 |
| January 2010                  | 21.86                  | 19.95 | 79.10   | 74.00 |
| February 2010                 | 23.79                  | 20.61 | 87.50   | 76.70 |
| March 2010 (through March 15) | 24.25                  | 21.54 | 94.29   | 81.02 |

## 9B. Plan of Distribution

Not applicable.

## 9C. Markets

Our ADSs are quoted on the NASDAQ Global Market under the symbol “PTNR”. Our ordinary shares are traded on the Tel Aviv Stock Exchange under the symbol “PTNR”.

9D. Selling Shareholders

Not applicable.

9E. Dilution

Not applicable.

9F. Expenses of the Issue

Not applicable.

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## ITEM 10. ADDITIONAL INFORMATION

### 10A. Share Capital

Not applicable.

### 10B. Memorandum and Articles of Association

#### Purposes and Objects of the Company

We are a public company registered under the Israeli Companies Law as Partner Communications Company Ltd., registration number 52-004431-4.

Pursuant to our articles of association, we were formed for the purpose of participating in the auction for the granting of a license to operate cellular radio telephone services in Israel, to provide such services, and without derogating from the above, we are also empowered to hold any right, obligation or legal action and to operate in any business or matter approved by the Company.

Pursuant to section three of our articles of association, our purpose is to operate in accordance with business considerations to generate profits; provided, however, that the Board of Directors is entitled to donate reasonable amounts to worthy causes, even if such donation is not within the frame of these business considerations.

Pursuant to section four of our articles of association, our objective is to engage in any legal business.

#### The Powers of the Directors

The power of our directors to vote on a proposal, arrangement or contract in which the director is materially interested is limited by the relevant provisions of the Companies Law. In addition, the power of our directors to vote compensation to themselves or any members of their body, requires the approval of the audit committee and the shareholders at a general meeting. The Annual Meeting of the Shareholders must be convened to appoint directors and to terminate their term of office. In addition, our Articles of Association provide that, in certain circumstances relating to our compliance with the License, our Board of Directors may remove any Director from the Board of Directors by a resolution passed by 75% or more of the directors present and voting at the relevant meeting.

See also "Item 6C. Board Practices."

#### Rights Attached to Shares

Our registered share capital consists of a single class of 235 million ordinary shares, par value NIS 0.01 per share, of which 158,908,126 ordinary shares were issued and outstanding as of December 31, 2009, and 158,951,801 shares were issued and outstanding as of January 31, 2010. All outstanding ordinary shares are validly issued and registered. The rights attached to our ordinary shares are described below.

#### Dividend Rights

Holders of ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The Board of Directors may propose and approve distribution of a dividend with respect to any fiscal year only out of profits, in accordance with the provisions of the Companies Law. See "Item 10E. Additional Information–Taxation."

Shares which are treated as dormant under our Articles of Association retain the rights to receive dividends or other distributions to shareholders, and to participate in rights offerings, but no other rights. See “Item 4B. Business Overview – Regulation – Our Mobile Telephone License – License Conditions”.

One year after a dividend has been declared and is still unclaimed, the Board of Directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to the benefit of the Company until it is claimed. We are not obligated to pay interest or linkage on an unclaimed dividend.

## Voting Rights

Holders of issued and outstanding ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders either in person or by proxy. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. In the event that a quorum is not present within thirty minutes of the scheduled time, the shareholders' meeting will be adjourned to the same day of the following week, or the next business day thereafter, at the same time and place, or such time and place as the Board of Directors may determine. If at such reconvened meeting a quorum is not present at the time appointed for holding the meeting, one or more shareholders present in person or by proxy holding or representing in the aggregate at least 10% of the voting rights in us will constitute a quorum. Any shareholder seeking to vote at a general meeting of our shareholders must first notify us if any of the shareholder's holdings in us requires the consent of the Ministry of Communications. The instructions of a shareholder will not be valid unless accompanied by a certification by the shareholder as to whether or not the shareholder's holdings in us or the shareholder's vote requires the consent of the Ministry of Communications due to a breach by the shareholder of the restrictions on transfer or acquisition of means of control, or provisions regarding cross-ownership with other mobile telephone operators or shareholdings or agreements which may reduce or harm competition. If the shareholder does not provide such certification, his instructions will be invalid and his vote not counted.

An ordinary resolution, such as a resolution for the election of directors, or the appointment of auditors, requires approval by the holders of a majority of the voting rights represented at the meeting, in person or by proxy, and voting thereon. Under our articles of association, resolutions such as a resolution amending our memorandum or articles of association or approving any change in capitalization, liquidation, changes in the objectives of the company, or the name of the company, or other changes as specified in our articles of association, requires approval of a special majority, representing the holders of no less than 75% of the voting rights represented at the meeting, in person or by proxy, and voting thereon.

Under our articles of association our directors are elected by an ordinary majority of the shareholders at each duly convened annual meeting, and they serve until the next annual meeting, provided that external directors shall be elected in accordance with applicable law and/or relevant stock exchange rules applicable to us; or until their respective successors are elected and qualified, whichever occurs first, or in the case of Israeli directors who are appointed by the founding Israeli shareholders, upon a written notice signed by at least two of the founding Israeli shareholders who are the record holders of at least 50% of minimum Israeli holding shares, to the Company Secretary of his or her appointment, until their respective successors are elected upon such notice. In each annual meeting the directors that were elected at the previous annual meeting are deemed to have resigned from their office, excluding an external director, who according to the Companies Law, is elected for a period of three years and the Israeli director whose appointment is terminated by a written notice by himself or by the founding Israeli shareholders. A resigning director may be reelected. Each ordinary share represents one vote. No director may be elected or removed on the basis of a vote by dormant shares. The ordinary shares do not have cumulative voting rights in the election of directors.

Under our Articles of Association our shareholders discuss our annual consolidated financial statements, at the annual ordinary meeting of shareholders.

Directors may be appointed also in certain circumstances by an extraordinary general meeting and by the Board of Directors upon approval of a simple majority of the directors. Such director, excluding an external director, shall serve for a term ending at the next annual general meeting.

Rights in the Company's Profits

Our shareholders have the rights to share in our profits distributed as a dividend and any other permitted distribution. See "Item 10B. Rights Attached to Shares—Dividend Rights."

Rights in the Event of Liquidation

All of our ordinary shares confer equal rights among them with respect to amounts distributed to shareholders in case of liquidation.

### Rights in the Event of Reorganization

Upon the sale of the property of the Company, the Board of Directors or the liquidators (in case of a liquidation) may receive and, if the Company's profits so permit, distribute among the shareholders fully or partially paid up shares, bonds or securities of another company or any other property of the Company without selling them or depositing them with trustees on behalf of the shareholders, provided, however, that they have received the prior authorization adopted by a special majority of the shareholders of the Company (representing at least 75% of the votes of shareholders participating and voting in the relevant general meeting). Such special majority may also decide on the valuation of such securities or property, unless the Company is in or beginning a liquidation process.

### Limitations on Ownership and Control

Ownership and control of our ordinary shares are limited by the terms of our license and our articles of association. See "Item 4B. Information on the Company—Business Overview—Our Mobile Telephone License—License Conditions" and "Revoking, limiting or altering our license."

In order to comply with the conditions and restrictions imposed on us by the Ministry of Communications or under our License in relation to ownership or control over us, under certain events specified in our articles of association, the Board of Directors may determine that certain ordinary shares are dormant shares. According to our articles of association, dormant shares bear no rights as long as they are dormant shares, except for the right to receive dividends and other distributions to shareholders. Consequently, we have received an exemption from the requirement set out in NASDAQ's Marketplace Rule 4351 that voting rights of existing shareholders of publicly traded common stock registered under Section 12 of the US Securities Exchange Act cannot be disparately reduced or restricted through any corporate action or issuance. In addition, the Board of Directors shall not register a person as a holder of a share before receipt of their declaration that they are not a relevant person as defined in our articles of association.

### Changing Rights Attached to Shares

According to our articles of association, in order to change the rights attached to any class of shares, the general meeting of the shareholders must adopt a resolution to change such rights by a special majority, representing at least 75% of the votes of shareholders participating and voting in the general meeting, and in case of changing the rights attached to certain class of shares, the approval by special majority of each class meeting, is required.

### Annual and Extraordinary Meetings

The Board of Directors must convene an annual meeting of shareholders at least once every calendar year, within fifteen months of the last annual meeting. Notice of a general meeting must be sent to each registered shareholder within five days after the record date set by the Board of Directors for that meeting, unless a different notice time is required under applicable law or unless all shareholders who qualify to vote at the time approve in writing of a shorter notice period. An extraordinary meeting may be convened by the Board of Directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or of one or more shareholders holding in the aggregate at least 4.99% of our issued capital, and at least 1% of the total voting rights of the Company or of one or more shareholders holding at least 4.99% of the total voting rights in the Company. An extraordinary meeting must be held not more than thirty-five days from the publication date of the announcement of the meeting. See "Item 10B. Rights Attached to Shares—Voting Rights."

One or more shareholders holding alone or in the aggregate, 4.99% or more of the share capital of the Company may request that the Board of Directors include an issue on the agenda of a general meeting to be convened in the future. The Board of Directors shall incorporate such issue on the agenda of such a future general meeting, provided that the

Board of Directors determines, in its discretion, such issue is suitable to be discussed in the general meeting of shareholders of the Company.

#### Limitations on the Rights to Own Our Securities

For limitations on the rights to own our securities see “Item 4B. Information on the Company – Business Overview – Our Mobile Telephone License – License Conditions,” “– Our Permit Regarding Cross Ownership” and “Item 10B. Rights Attached to Shares –Limitations on Ownership and Control.”

#### Limitations on Change in Control and Disclosure Duties

For limitations on change in control, see “Item 4B. Information on the Company – Business Overview – Our Mobile Telephone License – License Conditions” and “– Our Permit Regarding Cross Ownership”.

#### Changes in our Capital

Changes in our capital are subject to the approval of the shareholders at a general meeting by a special majority of 75% of the votes of shareholders participating and voting in the general meeting.

#### Our License Prevails in case of an Inconsistency

If any article of our Articles of Association is found to be inconsistent with the terms of our mobile telephone license granted by the Ministry of Communications (see “Item 4B. Business Overview – Our Mobile Telephone License”) or of any other telecommunications license we hold, the provisions of such Article shall be deemed null and void.

#### 10C. Material Contracts

In January 2007, we signed a two-year contract, which was extended for another year and then extended again in November 2009 until March 31, 2011, with the international long-distance provider “Golden Lines” (012), to carry all of our roaming related traffic. The agreement provides that Partner will route calls to its customers that are roaming abroad via Golden Lines (012). In addition, Partner will route outgoing international calls from foreign roamers hosted on Partner’s network in Israel. Under the agreement, all international signaling traffic related to Partner’s roamers abroad and foreign roamers hosted on Partner’s network while visiting Israel will be also be routed through Golden Lines (012). We expect that the costs related to these services provide by Golden Lines (012) will be approximately US \$30 million over a three-year period.

In December 2007, we signed an agreement with LM Ericsson Israel Ltd. for the replacement of third party 3G radio equipment existing in our network and for additional investment in the 3G network in addition to the support and maintenance of our network. The Company allocated the purchase price of US\$ 65 million to the above deliverables based on their relative fair values. Of this amount, US\$ 6.6 million related to support and maintenance of the network. During 2008, it was agreed to add equipment with a value of US\$ 4 million to the above agreement. The purchase price is after deduction of commercial discounts, some of which are contingent upon future negotiations for further purchases of services that are probable. While the major part of the replacement took place during 2008, the process is expected to end no later than June 2011.

We had contracted with “Super-Pharm”, the largest drugstore chain in Israel, to sell our network services through nationwide stores in a variety of formats, including Partner shop-in-shops, kiosks, wall-unit displays and at front counters. In 2008, approximately 12% of our new subscribers were recruited through sales by Super-Pharm. On December 31, 2008, we terminated our agreement with Super-Pharm after a comprehensive review of our distribution strategy and the effectiveness of our current distribution channels. Under the agreement, Super-Pharm was obliged to transfer to us all of its orange outside kiosks, which accounted for a substantial part of Super-Pharm’s sales of orange services. See “Item 4B. Business Overview – Sales and Distribution – Indirect Sales Channels”.

In July 2008, we signed an agreement with Bezeq for the provision of land-line transmission services. The agreement replaces an earlier transmission agreement from 2003, and applies retroactively for five years beginning December 2007. We may extend the term of the agreement by up to two one-year periods. The agreement includes both a basic package for a fixed number of lines, and additional transmission services which we may purchase from time to time in our discretion. We expect that the costs related to the services provided by Bezeq will be approximately NIS 60 million annually.



In June 2009, we entered into a non-exclusive agreement with Apple Sales International for the purchase and resale of iPhone handsets in Israel. Pursuant to the agreement, we agreed to purchase a minimum quantity of iPhone handsets per year, for a period of three years. These purchases will represent a significant portion of our expected handset purchases and sales over that period.

During 2009 we purchased a substantial portion of our Nokia handsets from Eurocom Communications Ltd. ("Eurocom"). See "Item 7B. Related Party Transactions-Transactions with Affiliates- Agreements with affiliates of Eurocom".

On December 27, 2009, the Company's Audit Committee and Board of Directors approved an extension of the Company's headquarters lease agreement with Mivnei Ta'asiya Ltd ("Mivnei Ta'asiya"). Mr. Ilan Ben Dov, who is the controlling shareholder of Scailex, our principal shareholder, is also the controlling shareholder of Tau Tshuot Ltd ("Tau"), which holds 4.9% of the issued share capital of Mivnei Ta'asiya. See "Item 7B. Related Party Transactions-Transactions with Affiliates- Agreements with affiliates of Scailex".

On December 28, 2009, our Audit Committee and Board of Directors approved the existing perennial agreement with Scailex, our principal shareholder as of October 28, 2009. Under the agreement, we will purchase, from time to time, cellular handsets, accessories and spare parts which are manufactured by Samsung electronics Ltd. and imported into Israel by Scailex (the "Samsung Products"). Our Audit Committee and Board of Directors also approved additional commercial arrangements between Scailex and Partner related to the annual volumes of our purchases of the Samsung Products and to Scailex's annual gross profit margin from these transactions with Partner compared to their gross profit margin from similar transactions with all their customers in Israel (together with the annual agreement, the "Samsung Products Agreement"). The total volume of the transactions between Scailex and Partner under the Samsung Products Agreement shall not exceed NIS 250 million, on an annual basis. However, in accordance with the Samsung Products Agreement, Scailex and Partner may increase the scope of annual purchases of Samsung Products by an additional amount of up to NIS 50 million, subject to the approval of the Audit Committee and Board of Directors of each of the companies.

Pursuant to the terms of the Samsung Products Agreement, the prices of the Samsung Products shall be determined by negotiations between Scailex and us; however, Scailex's total and accumulative annual gross profit margin from transactions with Partner regarding each group of products (purchase of handsets, accessories or spare parts) ("Annual Gross Profit Margin") shall not exceed Scailex's average gross profit margin from the same group of products with their customers in Israel during the same calendar year (the "Average Gross Profit Margin"). If the Annual Gross Profit Margin of any group of products, exceeds Scailex's Average Gross Profit Margin, from the same group of Products, by more than 10% of the Average Gross Profit Margin, Scailex shall credit the difference to us.

The Samsung Products Agreement shall become effective subject to the approval of the General Meeting of Shareholders of Partner. The term of the Samsung Products Agreement shall be for a period of three years commencing on October 28, 2009, the date Scailex became our principal shareholder.

We have entered into a registration rights agreement with Scailex, our principal shareholder, in which we granted our principal shareholder the right to require us to register ordinary shares held by them under the US Securities Act. See "Item 7B. Related Party Transactions-Transactions with Affiliates- Agreements with affiliates of Scailex".

#### 10D. Exchange Controls

There are no Israeli government laws, decrees or regulations that restrict or that affect our export or import of capital or the remittance of dividends, interest or other payments to non-resident holders of our securities, including the availability of cash and cash equivalents for use by us and our wholly-owned subsidiaries, Partner Future

Communications 2000 Ltd. and Partner Land-Line Communications Solutions (of which Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner), except or otherwise as set forth under “Item 10E. Additional Information – Taxation.”

Under Israeli law (and our memorandum and articles of association), persons who are neither residents nor nationals of Israel may freely hold, vote and transfer ordinary shares in the same manner as Israeli residents or nationals.

## 10E. Taxation

### Israeli Tax Considerations

The following is a summary of the current tax laws of the State of Israel as they relate to us and to our shareholders and also includes a discussion of the material Israeli tax consequences for persons purchasing our ordinary shares or ADSs, both referred to below as the “Shares”. To the extent that the discussion is based on legislation yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

### Israeli Tax Reforms

On July 24, 2002, the Israeli Knesset enacted income tax reform legislation, commonly referred to as the “2003 Tax Reform”. The 2003 Tax Reform has introduced fundamental and comprehensive changes into Israeli tax laws. Most of the legislative changes took effect on January 1, 2003. The 2003 Tax Reform has introduced a transition from a primarily territorial-based tax system to a personal-based system of taxation with respect to Israeli residents. The 2003 Tax Reform has also resulted in significant amendment of the international taxation provisions, and new provisions concerning the taxation of capital markets including the abolishment of currently “exempt investment routes” (e.g., capital gains generated by Israeli individuals from the sale of securities traded on the Tel-Aviv Stock Exchange). Under the 2003 Tax Reform legislation the Shares are no longer regarded and defined as “foreign traded securities” and thus certain associated Israeli tax aspects will accordingly be subject to change as discussed below.

A relatively short time after the 2003 Tax Reform, the Israeli Parliament approved on July 25, 2005 an additional income tax reform legislation (the “2006 Tax Reform”) pursuant to the recommendations of a committee appointed by the Israeli Minister of Finance, which incorporated additional fundamental changes to Israeli tax law. The 2006 Tax Reform, inter alia, includes a gradual reduction of income tax rates for both individuals and corporations through 2010, and outlines a path towards uniformity in the taxation of interest, dividend and capital gains derived from securities. Most of the amendments to the tax law are effective as of January 1, 2006, subject to certain exceptions. Transition rules apply in certain circumstances.

Various issues related to the 2003 Tax Reform and the 2006 Tax Reform remain unclear in view of the legislative language utilized and the lack of authoritative interpretations at this stage. The analysis below is therefore based on our current understanding of the new legislation.

### General Corporate Tax Structure

The corporate tax rate applicable in 2009 was 26%. This rate was reduced to 25% in 2010 and is scheduled to be gradually reduced to 18% in 2016 and beyond.

### Special Provisions Relating to Taxation under Inflationary Conditions

Until 2008, our taxable income was determined under the Income Tax (Inflationary Adjustment) Law 1985 (the “Inflationary Adjustments Law”), which attempts to overcome some of the problems presented to a traditional tax system by inflation.

In February 2008, the Israeli Parliament approved Amendment No. 20 to the Inflationary Adjustments Law (“the Amendment”). The Amendment repealed the Inflationary Adjustments Law as of January 1, 2008 and set certain transitional rules.

The Israeli Income Tax Ordinance and regulations promulgated there under allow Foreign-Invested Companies, to adjust their tax returns based on exchange rate fluctuations of the shekel against the US Dollar. For these purposes, a Foreign-Invested Company is a company in which more than 25% of the share capital in terms of rights to distributions, voting and appointment of directors, and of the combined share capital, including shareholder loans and capital notes, is held by persons who are not residents of Israel. A company that elects to measure its results for tax purposes based on the US Dollar exchange rate cannot change that election for a period of three years following the election. Although we qualify as a Foreign-Invested Company, we have not elected this taxable income measurement alternative.

#### Tax on Capital Gains of Shareholders

**General.** Israeli law imposes a capital gains tax on the sale of capital assets by an Israeli resident and on the sale of capital assets located in Israel or the sale of direct or indirect rights to assets located in Israel, including on the sale of our Shares by some of our shareholders (see discussion below). The Israeli Income Tax Ordinance distinguishes between “Real Gain” and “Inflationary Surplus”. Real Gain is the excess of the total capital gain over Inflationary Surplus computed on the basis of the increase in the CPI between the date of purchase and the date of sale. In 2009, the Real Gain accrued at the sale of an asset that is purchased on or after January 1, 2003 is taxed at a 25% rate for corporations, and 20% rate for individuals. Additionally, if such shareholder is considered a “Significant Shareholder” at any time during the 12-month period preceding such sale (i.e. if such shareholder holds directly or indirectly, including along with others, at least 10% of any means of control in the company), the tax rate will be 25%. However, the foregoing tax rates will not apply to (i) dealers in securities; and (ii) shareholders who have acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Inflationary surplus that accrued after December 31, 1993, is exempt from tax.

Real Gains derived from the disposal after January 1, 2003 of an asset purchased prior to this date will be subject to capital gains tax at a blended rate. The regular corporate tax rate of 26% (in 2009 and a marginal tax rate of up to 46% (in 2009 (this rate was reduced to 45% in 2010 and is scheduled to be gradually reduced to 39% in 2016 and beyond) for individuals will be applied to the gain amount which bears the same ratio to the total gain realized as the ratio which the holding period commencing at the acquisition date and terminating on January 1, 2003 bears to the total holding period. The remainder of the gain realized will be subject to capital gains tax at a 25% rate for corporations and 20% for individuals (25% for an individual who was a “Significant Shareholder” at any time during the 12-month period preceding such sale).

Generally, within 30 days of a transaction a detailed return, including a computation of the tax due should be submitted to the Israeli Tax Authorities and a tax advance amounting to the tax liability arising from the capital gain is payable. At the sale of traded securities, the aforementioned detailed return may not be submitted and the tax advance should not be paid, if all tax due was withheld at the source according to applicable provisions of the Israeli Tax Ordinance and regulations promulgated thereunder.

Capital gains are also reportable on annual income tax returns.

**Taxation of Israeli Residents.** In July 2001 our ordinary shares were listed for trading on the Tel Aviv Stock Exchange. As a result of our dual listing and due to the 2003 Tax Reform (inclusion of new provisions concerning the taxation of capital markets) and that since our ordinary shares are no longer considered “foreign traded securities”, (as defined in the Israeli Income Tax Ordinance prior to cancellation of the definition in the 2006 Tax Reform), the tax treatment of our shareholders under Israeli law has changed.

The following is a summary of the most significant Israeli capital gains tax implications arising with respect to the sale of our Shares by shareholders who are not engaged in the business of trading securities. As demonstrated below,

the timing of the shareholder's purchase of the shares will determine the tax outcomes in this regard.

Sale of shares purchased after January 1, 2003

#### Individuals

A shareholder will generally be subject to tax at 20% rate on realized real capital gain (if the shareholder is a Significant Shareholder, as defined above, the tax rate will be 25%). To the extent that the shareholder claims a deduction of financing expenses, the gain will be subject to tax at a rate of 25% (until otherwise stipulated in bylaws that may be published in the future).

#### Corporations

Corporations that were subject to the Inflationary Adjustments Law on August 10, 2005

Shareholder corporation will be generally subject to tax at the corporate rate on the realized capital gain of 26% in 2009 and as of 2010 to the corporate tax rate that will be in effect at such year (25% in 2010 and is scheduled to be gradually reduced to 18% in 2016 and beyond). Although not clear from doubt it can generally be assumed that with respect to shares purchased after January 1, 2006, and realized during 2009, the shareholder will be subject to tax at the corporate tax rate of 25% on realized real capital gains.

Corporations that were not subject to the Inflationary Adjustments Law on August 10, 2005

Generally, the shareholder will be subject to tax at the corporate tax rate of 25% (in 2009 and 2010 and is scheduled to be gradually reduced to 18% in 2016 and beyond) on realized real capital gains.

Different taxation rules may apply to shareholders who purchased the Shares prior to the listing on the Tel Aviv Stock Exchange. Such Shareholders should consult with their own tax advisors for the tax consequences upon sale.

¶**Taxation of Non-Israeli Residents.** As mentioned above, Israeli law generally imposes a capital gains tax on sales of capital assets, including securities and any other direct or indirect rights to capital assets located in Israel. This tax is also applicable to nonresidents of Israel as follows:

Foreign investors (individuals and corporations) that are not engaged in the business of trading securities through a permanent establishment in Israel, who purchased the shares after the listing on the Tel Aviv Stock Exchange will be exempt from tax on capital gains derived from the sale of the shares. Foreign corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such foreign corporation, whether directly or indirectly.

Different taxation rules may apply to shareholders who purchased their shares prior to the listing on the Tel Aviv Stock Exchange. They should consult with their tax advisors for the precise treatment upon sale.

¶**Taxation of Investors Engaged in a Business of Trading Securities.** Individual and corporate dealers in securities in Israel are taxed at tax rates applicable to business income.

¶**Withholding at Source from Capital Gains from Traded Securities.** Israeli stockbrokers have a duty to withhold tax upon the sale of traded securities. The applicable withholding tax rate is generally 20% from the real gain derived from such sale by Israeli resident individuals and 25% from the real gain derived by Israeli resident corporations. Non-Israeli residents are generally not subject to a withholding tax on the capital gain derived from the sale of traded securities provided all the following conditions are met:

- 1 - the income derived from such sale is not classified as business income;
- 2 - the income is not attributed to a permanent establishment maintained by the seller in Israel; and
- 3 the securities sold were purchased upon or after the initial public offering (this condition was cancelled in respect  
- of securities purchased on or after January 2009)

#### Dividends

The following Israeli tax consequences shall apply in the event of actual payment of any dividends on the Shares.



Dividends, other than bonus shares (stock dividends), paid to Israeli resident individuals who purchased our Shares will generally be subject to income tax at a rate of 20% for individuals, or 25% if the dividends receipt is a Significant Shareholder (as defined above) at any time during the 12-month period preceding such distribution. Dividends paid to Israeli resident companies will be exempt from tax.

Non-residents of Israel (both individuals and corporations) are subject to income tax on income accrued or derived from sources in Israel, including dividends from Israeli corporations. The distribution of dividend income, other than bonus shares (stock dividends), to non-residents of Israel will generally be subject to income tax at a rate of 20% (or 25% for a shareholder that is considered a Significant Shareholder (as defined above) at any time during the 12-month period preceding such distribution), unless a lower rate is stipulated by a double tax treaty between the State of Israel and the shareholder's country of residence.

In the event of actual payment of any dividends on our ordinary shares or ADSs the following withholding rates will be applied: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% (iii) non-Israeli resident – 20%, subject to a reduced tax rate under an applicable double tax treaty.

#### Taxation of Residents of the United States under the US Treaty

Residents of the United States will generally be subject to withholding tax in Israel on dividends paid, if any, on Shares (including ADSs). Generally, under the Convention Between the Government of the United States of America and the Government of the State of Israel with Respect to Taxes on Income (the "US Treaty"), the maximum rate of withholding tax on dividends paid to a holder of Shares (including ADSs) who is a resident of the United States (as defined in the US Treaty) will be 25%. Since the tax rate of 25% is generally higher than the maximum Israeli tax rate on dividends pursuant to the 2006 Tax Reform, the maximum tax rate should be 20%. Under the US Treaty, the withholding tax rate on dividends will be reduced to 12.5% if the shareholder is a U.S. resident corporation which holds at the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year that consists of certain type of interest or dividends.

The US Treaty exempts from taxation in Israel any capital gains realized on the sale, exchange or other disposition of Shares (including ADSs) provided the following cumulative conditions are met (a) the seller is a resident of the United States for purposes of the US Treaty, and (b) the seller owns directly or indirectly, less than 10% of our voting stock at all times during the 12-month period preceding such sale, exchange or other disposition (c) the seller, being an individual, is present in Israel for a period or periods of less than 183 days at the taxable year; and (d) the capital gain from the sale was not generated through a permanent establishment of the seller in Israel.

Subject to the exemptions from capital gains prescribed in the Israeli Income Tax Ordinance, purchasers of Shares (including ADSs), who are residents of the United States and who hold 10% or more of the outstanding ordinary shares at any time during such 12-month period will be subject to Israeli capital gains tax. However, under the US Treaty, residents of the United States (as defined in the US Treaty) generally would be permitted to claim a credit for this tax against US federal income tax imposed on the sale, exchange or other disposition, subject to the limitations in US laws applicable to the utilization of foreign tax credits generally.

The application of the US Treaty provisions to dividends and capital gains described above is conditioned upon the fact that such income is not effectively connected with a permanent establishment (as defined in the US Treaty) maintained by the non-Israeli resident in Israel.

A non-resident of Israel that has received a dividend income derived from an Israeli corporation, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided that such income was not connected to or derived from a trade or business conducted in Israel by such person.

#### Repatriation

Non-residents of Israel who acquire any of the Shares (including ADSs) of the Company will be able to repatriate dividends, liquidation distributions and the proceeds from the sale of such ADSs or ordinary shares, in non-Israeli currencies at the rate of exchange prevailing at the time of repatriation provided that any applicable Israel income tax has been paid, or withheld, on such amounts. US holders should refer to the “United States Federal Income Taxation – Dividends” section below with respect to the US federal tax treatment of foreign currency gain or loss.

## United States Federal Income Tax Considerations

The following discussion is a summary of certain material US federal income tax considerations applicable to a US holder (as defined below) regarding the acquisition, ownership and disposition of ordinary shares or ADSs. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed US Treasury regulations, administrative pronouncements, rulings and judicial decisions in effect as of the date of this Annual Report. All of these authorities are subject to change, possibly with retroactive effect, and to change or changes in interpretation. In addition, this summary does not discuss all aspects of US federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under US federal income tax law, including US expatriates, insurance companies, banks, regulated investment companies, securities broker-dealers, financial institutions, tax-exempt organizations, persons holding ordinary shares or ADSs as part of a straddle, hedging or conversion transaction, persons subject to the alternative minimum tax, persons who acquired their ordinary shares or ADSs pursuant to the exercise of employee stock options or otherwise as compensation, persons having a functional currency other than the US dollar, persons owning (directly, indirectly or by attribution) 10% or more of our outstanding share capital or voting stock, and persons not holding the ordinary shares or ADSs as capital assets.

As used herein, the term “US holder” means a beneficial owner of an ordinary share or an ADS who is eligible for benefits as a US resident under the limitation on benefits article of the US Treaty (as defined above in “–Taxation of residents of the United States under the US Treaty”), and is:

- a citizen or individual resident of the United States for US federal income tax purposes;
- a corporation (or an entity taxable as a corporation for US federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia);
- an estate whose income is subject to US federal income taxation regardless of its source; or
- a trust if (A) a US court is able to exercise primary supervision over the trust’s administration and (B) one or more US persons have the authority to control all of the trust’s substantial decisions.

If a partnership, or other entity treated as a partnership for US federal income tax purposes, holds ordinary shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds ordinary shares or ADSs is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of ordinary shares or ADSs.

For US federal income tax purposes, US holders of ADRs will be treated as owners of the ADSs evidenced by the ADRs and the ordinary shares represented by the ADSs. Furthermore, deposits or withdrawals by a US holder of ordinary shares for ADSs, or of ADSs for ordinary shares, will not be subject to US federal income tax or Israeli income tax. The statement of US federal income tax law set forth below assumes that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

US holders should review the summary above under “Israeli Taxation” and “Israeli Taxation–Taxation of residents of the United States under the US Treaty” for a discussion of the Israeli taxes which may be applicable to them.

Holders of ordinary shares or ADSs should consult their own tax advisors concerning the specific Israeli, US federal, state and local tax consequences of the ownership and disposition of the ordinary shares or ADSs in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction. In particular, US holders are urged to consult their own tax advisors concerning whether they will be eligible for benefits under the

US Treaty.

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## Dividends

A US holder generally will be required to include in gross income as ordinary dividend income the amount of any distributions paid on the ordinary shares and ADSs, including the amount of any Israeli taxes withheld in respect of such dividend. Dividends paid by us will not qualify for the dividends-received deduction applicable in certain cases to US corporations.

The amount of any distribution paid in NIS, including the amount of any Israeli withholding tax thereon, will be included in the gross income of a US holder of ordinary shares in an amount equal to the US dollar value of the NIS calculated by reference to the spot rate of exchange in effect on the date the distribution is received by the US holder or, in the case of ADSs, by the Depositary. If a US holder converts dividends paid in NIS into US dollars on the day such dividends are received, the US holder generally should not be required to recognize foreign currency gain or loss with respect to such conversion. If the NIS received in the distribution are not converted into US dollars on the date of receipt, any foreign currency gain or loss recognized upon a subsequent conversion or other disposition of the NIS will be treated as US source ordinary income or loss. Special rules govern and special elections are available to accrual method taxpayers to determine the US dollar amount includible in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and the elections applicable in this regard.

Any dividends paid by us to a US holder on the ordinary shares or ADSs will be treated as foreign source income and will generally be categorized as “passive income” for US foreign tax credit purposes. Subject to the limitations in the Code, as modified by the US Treaty, a US holder may elect to claim a foreign tax credit against its US federal income tax liability for Israeli income tax withheld from dividends received in respect of ordinary shares or ADSs. US holders who do not elect to claim the foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only for a year in which the US holder elects to do so with respect to all foreign income taxes. A deduction does not reduce US tax on a dollar-for-dollar basis like a tax credit. The deduction, however, is not subject to the limitations applicable to foreign tax credits. The rules relating to the determination of the foreign tax credit are complex. Accordingly, if you are a US holder of ordinary shares or ADSs, you should consult your own tax advisor to determine whether and to what extent you would be entitled to the credit.

Certain US holders (including individuals) are eligible for reduced rates of US federal income tax (at a maximum rate of 15%) in respect of “qualified dividend income” received in taxable years beginning before January 1, 2011. For this purpose, qualified dividend income generally includes dividends paid by a non-US corporation if, among other things, the US holders meet certain minimum holding period requirements and the non-US corporation satisfies certain requirements, including that either (i) the shares (or ADSs) with respect to which the dividend has been paid are readily tradable on an established securities market in the United States, or (ii) the non-US corporation is eligible for the benefits of a comprehensive US income tax treaty (such as the US Treaty) which provides for the exchange of information. We currently believe that dividends paid with respect to our ordinary shares and ADSs, should constitute qualified dividend income for US federal income tax purposes. We anticipate that our dividends will be reported as qualified dividends on Forms 1099-DIV delivered to US holders. Each individual US holder of ordinary shares or ADSs is urged to consult his own tax advisor regarding the availability to him of the reduced dividend tax rate in light of his own particular situation and regarding the computations of his foreign tax credit limitation with respect to any qualified dividend income paid by us, as applicable.

The US Treasury has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits or reduced rates in respect of qualified dividends by US holders of ADSs. Accordingly, the discussion above regarding the creditability of Israeli withholding tax or the availability of qualified dividend treatment could be affected by future actions that may be taken by the US Treasury with respect to ADSs.



### Sale, Exchange or Other Disposition

Upon the sale, exchange or other disposition of ordinary shares or ADSs, a US holder generally will recognize capital gain or loss equal to the difference between the US dollar value of the amount realized on the sale, exchange or other disposition and the US holder's adjusted tax basis, determined in US dollars, in the ordinary shares or ADSs. Any gain or loss recognized upon the sale, exchange or other disposition of the ordinary shares or ADSs will be treated as long-term capital gain or loss if, at the time of the sale, exchange or other disposition, the holding period of the ordinary shares or ADSs exceeds one year. In the case of individual US holders, capital gains generally are subject to US federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses by a US holder is subject to significant limitations. US holders should consult their own tax advisors in this regard.

In general, gain or loss recognized by a US holder on the sale, exchange or other disposition of ordinary shares or ADSs will be US source income or loss for US foreign tax credit purposes. Pursuant to the US Treaty, however, gain from the sale or other disposition of ordinary shares or ADSs by a holder who is a US resident, for US Treaty purposes, and who sells the ordinary shares or ADSs within Israel may be treated as foreign source income for US foreign tax credit purposes.

US holders who hold ordinary shares or ADSs through an Israeli stockbroker or other Israeli intermediary may be subject to an Israeli withholding tax on any capital gains recognized if the US holder does not obtain approval of an exemption from the Israeli Tax Authorities. US holders are advised that any Israeli tax paid under circumstances in which an exemption from such tax was available will not give rise to a deduction or credit for foreign taxes paid for US federal income tax purposes. US holders are advised to consult their Israeli stockbroker or intermediary regarding the procedures for obtaining an exemption.

If a US holder receives NIS upon the sale of ordinary shares, that US holder may recognize ordinary income or loss as a result of currency fluctuations between the date of the sale of the ordinary shares and the date the sales proceeds are converted into US dollars.

### Passive Foreign Investment Company Rules

A non-US corporation will be classified as a Passive Foreign Investment Company (a "PFIC") for any taxable year if at least 75% of its gross income consists of passive income (such as dividends, interest, rents, royalties (other than rents or royalties derived in the active conduct of a trade or business and received from an unrelated person), and gains on the disposition of certain minority interests) or at least 50% of the average value of its assets consist of assets that produce, or are held for the production of, passive income. We currently believe, that we were not a PFIC for the year ended December 31, 2009. However, this conclusion is a factual determination that must be made at the close of each year and is based on, among other things, a valuation of our ordinary shares, ADSs and assets, which will likely change from time to time. If we were characterized as a PFIC for any taxable year, a US holder would suffer adverse tax consequences. These consequences may include having the gains that are realized on the disposition of ordinary shares or ADSs treated as ordinary income rather than capital gains and being subject to punitive interest charges with respect to certain dividends and gains and on the sale or other disposition of the ordinary shares or ADSs. Furthermore, dividends paid by a PFIC are not eligible to be treated as "qualified dividend income" (as discussed above).

Application of the PFIC rules is complex. US holders should consult their own tax advisors regarding the potential application of the PFIC rules to the ownership of our ordinary shares or ADSs.





#### Information Reporting and Backup Withholding

Dividend payments with respect to ordinary shares or ADSs and proceeds from the sale, exchange or other disposition of ordinary shares or ADSs may be subject to information reporting to the Internal Revenue Service (the "IRS") and possible US backup withholding at a current rate of 28% (currently set to increase to 31% on January 1, 2011). Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. US persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-US holders generally will not be subject to US information reporting or backup withholding. However, such holders may be required to provide certification of non-US status (generally on IRS Form W-8BEN) in connection with payments received in the United States or through certain US-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information.

#### 10F. Dividends and Paying Agents

Not applicable.

#### 10G. Statement By Experts

Not applicable.

#### 10H. Documents on Display

Reports and other information of Partner filed electronically with the US Securities and Exchange Commission may be found at [www.sec.gov](http://www.sec.gov). They can also be inspected without charge and copied at prescribed rates at the public reference facilities maintained by the SEC in Room 1024, 450 Fifth Avenue, N.W., Washington, D.C. 20549.

#### 10I. Subsidiary Information

Not applicable.

### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### General

We are exposed to market risk, including movements in foreign currency exchange and inflation-indexed interest rates. Where appropriate, we enter into derivative transactions to hedge underlying exposure to foreign currencies and inflation (as measured by the consumer price index ("CPI")). As a matter of policy, we do not enter into transactions of a speculative or trading nature. Interest rate and foreign exchange exposures are monitored by tracking actual and projected commitments and through the use of sensitivity analysis.

We have liabilities in shekels linked to the CPI and in foreign currencies. The following table provides information derived from the financial statements about these liabilities as of December 31, 2009.



## Non-Derivative Instruments

|  | Fair Value<br>(NIS<br>equivalent in<br>millions,<br>except<br>percentages) | Book Value<br>(NIS<br>equivalent in<br>millions,<br>except<br>percentages) |
|--|--|--|
| NIS-denominated debt linked to the CPI                     |  |  |
| Long-term fixed Notes payable series A due 2012(2)         | 1,765  | 1,681  |
| Weighted average interest rate payable                     | 4.25 %   | 4.25 %   |
| Long-term fixed Notes payable series B due 2016(2)         | 434  | 448  |
| Weighted average interest rate payable(3)                  | 3.4 %  | 3.4 %  |
| NIS-denominated debt not linked to the CPI                 |  |  |
| Capital lease  |  | 4  |
| Weighted average interest rate payable                     |  | 4.6 %  |
| Debt denominated in foreign currencies<br>(mainly USD) (1) |  |  |
| Payables-trade   |  | 224  |
| Weighted average interest rate payable                     |  | -  |
| Total  |  | 2,364  |

(1) Book value approximates fair value at December 31, 2009.

(2) Amounts due for payment of principal and interest (4.25%) on the Notes due 2012 are adjusted according to the CPI. See "Item 5B. Liquidity and Capital Resources – Notes due 2012".

(3) The interest rate on the Notes has been increased by 0.6% to 4% per annum until a prospectus or a shelf offering report is published for the listing of the Notes for trade on the TASE. The Company has also undertaken to make best efforts to list the Notes for trade on the TASE until June 30, 2010.

## Foreign Exchange and Inflation

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, through December 31, 2009, a material amount of our operating expenses were linked to non-shekel currencies, mainly the US dollar. These expenses related mainly to the acquisition of handsets where the price paid by us is based on various foreign currencies, mainly the US dollar. In addition, most of our capital expenditures are incurred in, or linked to non-shekel currencies, mainly the US dollar. In light of the decrease in the average value of the US dollar compared to the shekel during 2007 and 2008, changes in foreign exchange rates thus had an overall favorable impact on our expenses and financial results. However during 2009, increase in foreign exchange rates had an overall unfavorable impact on our expenses and financial results. In the event of a continuous decline in the value of the shekel against the dollar (or other foreign currencies), the shekel cost of our non-shekel denominated or linked expenses would increase. Such an increase may have an adverse impact on our results, which may be material. We

hedge some of our foreign currency commitments.

Our hedging strategy is to neutralize and mitigate our currency exposures by entering into hedging transactions which convert into shekels the liabilities not denominated in shekels. We do not hold or issue derivative financial instruments for trading purposes.

Our Notes payable are currently in shekels and are linked to the CPI. We may not be permitted to raise our tariffs pursuant to our license in a manner that would fully compensate for any increase in the CPI. Therefore, an increase in the rate of inflation may also have a material adverse impact upon us by increasing our financial expenses without an offsetting increase in revenue. In 2009, the CPI effective as of December 31, 2009, increased 3,8%, compared to the CPI effective as of December 31, 2008, causing NIS 88 million in our financial expenses, net, compared to an increase of 4.5% in 2008, which caused NIS 102 million in financial expenses, net. See Note 21 to our consolidated financial statements. These expenses were partially offset by hedging contracts (see below).

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We enter into derivative transactions in order to protect ourselves from an increase in the CPI in respect of the principal of the CPI – linked Notes. We also enter into derivative transactions in order to protect ourselves from changes in foreign currencies exchange rate. These transactions are mainly designated to hedge the cash flows related to payments in respect of purchases of handsets and capital expenditures in foreign currency. However, these contracts do not qualify for hedge accounting under IAS 39.

The following table provides information derived from the financial statements about our outstanding foreign exchange instruments. The notional amount does not necessarily represent amounts exchanged by the parties and, therefore, is not a direct measure of our exposure. See also Note 6b to our consolidated financial statements.

## Derivative Instruments

|  | As of<br>December<br>31,<br>2008 | As of<br>December<br>31, 2009 | Fair Value<br>at<br>December<br>31,<br>2009 |
|--|----------------------------------|-------------------------------|---|
|  | (NIS equivalent in millions)     |                               |   |
| Forward transactions - for the exchange of: Dollars into NIS | 380                              | 113                           | (2 )  |
| Forward transactions-for the exchange of Euros into NIS      | 32                               |                               |   |
| Embedded derivatives - Dollars into NIS                      | 310                              | 163                           | 2   |
| Forward transactions - for changes in the Israeli CPI        | 800                              | 430                           | 14  |

## Sensitivity analysis

A change of the CPI as at December 31, 2009 and 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

|                        | Change  | Equity<br>New Israeli Shekels in<br>millions | Profit |
|------------------------|---------|--|--------|
| December 31, 2009      |         |  |        |
| Increase in the CPI of | 2.0 %   | (41 )  | (41 )  |
| Decrease in the CPI of | (2.0 )% | 41   | 41     |
| December 31, 2008      |         |  |        |
| Increase in the CPI of | 2.0 %   | (27 )  | (27 )  |
| Decrease in the CPI of | (2.0 )% | 27   | 27     |

A change of the USD exchange rate as at December 31, 2009 and 2008 would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables remain constant.

|                        | Change  | Equity<br>New Israeli Shekels in<br>millions | Profit |
|------------------------|---------|--|--------|
| December 31, 2009      |         |  |        |
| Increase in the USD of | 5.0 %   | (12 )  | (12 )  |
| Decrease in the USD of | (5.0 )% | 10   | 10     |

|                        |      |    |    |      |
|------------------------|------|----|----|------|
| December 31, 2008      |      |    |    |      |
| Increase in the USD of | 5.0  | %  | (6 | ) (6 |
| Decrease in the USD of | (5.0 | )% | 5  | 5    |

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## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### Fees and charges payable by ADR holders

The Bank of New York Mellon serves as the depository (the “Depository”) for our American Depositary Receipt (“ADR”) program. Pursuant to the deposit agreement between the Company, the Depository and owners and holders of ADRs (the “Deposit Agreement”), ADR holders may be required to pay various fees to the Depository. In particular, the Depository, under the terms of the Deposit Agreement, may charge the following fees to any party depositing or withdrawing shares underlying the ADRs, or to any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the ADRs or any deposited securities underlying the ADRs or a distribution of ADRs pursuant to a distribution of underlying shares), as applicable: (1) taxes and governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of shares generally on the Company’s share register and applicable to transfers of shares to the name of the Depository or its nominee or agent in connection with making deposits or withdrawals under the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided for in the Deposit Agreement, (4) such expenses as are incurred by the Depository in the conversion of foreign currency, (5) a fee of \$5.00 or less per 100 American Depositary Shares (“ADSs”) (or portion thereof) for the execution and delivery of ADRs (including in connection with distributions of shares or rights by the Company) and in connection with the surrender of receipts and withdrawal of the underlying shares, (6) a fee of \$.02 or less per ADS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including in connection with distributions of shares or rights, (7) a fee for the distribution of securities in connection with certain distributions, such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities but which securities are instead distributed by the Depository to ADR holders, (8) in addition to any fee charged under clause (6), a fee of \$.02 or less per ADS (or portion thereof) for depository services, and (9) any other charges payable by the Depository or any of its agents in connection with the servicing of shares or other deposited securities underlying the ADRs.

### Amounts received from the Depository

In 2009 the Company received from the Bank of New York Mellon a payment on May 19, 2009 in the amount of \$450,000 and a payment on June 17, 2009 in the amount of \$450,000.

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

## ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

## ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Disclosure controls and procedures means controls and other procedures designed to ensure that information required to be disclosed in the reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the

rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.



There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures in place as of December 31, 2009 were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting. Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of our records that in reasonable detail accurately and fairly reflect our transactions during the year;

- provide reasonable assurance that our transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;

- provide reasonable assurance that our receipts and expenditures are made only in accordance with authorizations of our management and Board of Directors (as appropriate); and

- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009, based on the framework for Internal Control-Integrated Framework set forth by The Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

Our internal control over financial reporting as of December 31, 2009, has been audited by Kesselman & Kesselman, an independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited., as stated in their report which is included under Item 18.

(c) Attestation report of the registered public accounting firm. The attestation report of Kesselman & Kesselman, an independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, regarding the Company's internal control over financial reporting is included under Item 18.

(d) Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Dr. Michael Anghel, Barry Ben-Zeev, Erez Gissin and Dr. Shlomo Nass are “audit committee financial experts” as defined in Item 16A of Form 20-F. All the members of the Audit Committee are “independent directors” as defined in the NASDAQ listing standards applicable to us.

## ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees. We undertake to provide to any person without charge, upon request, a copy of our code of ethics, which you may request from Partner’s legal department, tel.: +972-54-4814191.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kesselman & Kesselman, independent certified public accountants in Israel and a member of Pricewaterhouse Coopers International Limited (“PwC”), have served as our independent public accountants for each of the fiscal years in the three-year period ended December 31, 2009, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services rendered by PwC to Partner in 2008 and 2009.

|                        | 2008<br>(NIS<br>thousands) | 2009<br>(NIS<br>thousands) |
|------------------------|----------------------------|----------------------------|
| Audit Fees (1)         | 3,077                      | 2,904                      |
| Audit-related Fees (2) | 230                        | 766                        |
| Tax Fees (3)           | 279                        | 330                        |
| TOTAL                  | 3,586                      | 4,000                      |

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; and assistance with and review of documents filed with the SEC.

(2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and include consultations concerning financial accounting and reporting standards, as well as the purchase of an accounting data base.

(3) Tax Fees include fees billed for tax compliance services, including the preparation of tax returns and claims for tax refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, and requests for rulings or technical advice from taxing authority.

## Audit Committee Pre-approval Policies and Procedures

Our Audit Committee’s specific responsibilities in carrying out its oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company include the approval of audit and non-audit services to be provided by the external auditor. The Audit Committee approves in advance the particular services or categories of

services to be provided to the Company during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional non-audit services may be pre-approved by the Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

See “Item 6C. Board Practices – NASDAQ Corporate Governance Rules and Our Practices”, and also “10B. Memorandum and Articles of Association”.

ITEM 17. FINANCIAL STATEMENTS

The company has responded to “Item 18. Financial Statements” in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report.

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ITEM 19. EXHIBITS

Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

Exhibit No. Description

- 1.1 Articles of Association last updated and approved on October 22, 2009
- \*\*1.2 Partner's Certificate of Incorporation
- \*\*1.3 Partner's Memorandum of Association
- \*\*2.(a).1 Form of Share Certificate
- ^^2.(a).2 Amended and Restated Deposit Agreement Between Partner and the Bank of New York
- ^2.(b).1 Form of Indenture between Partner and the Trust Company of Union Bank Ltd.

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- 2.(b).2 Trust Deed
- 2.(b).3 Amendment no. 1 to the Trust Deed of November 26, 2009
- ^4.(a).1 Restatement of the Relationship Agreement dated April 20, 2005
- 4.(a).1.1 Letter of Undertaking by which Scailex entered into the Restated Relationship Agreement with the Company, October 28, 2009
- \*\*4.(a).2 License from the Israeli Ministry of Communications issued April 8, 1998
- \*\*4.(a).4 License Agreement for use of the Orange Brand in Israel dated September 14, 1998
- \*\*4.(a).5 Brand Support/Technology Transfer Agreement dated July 18, 1999
- \*\*4.(a).6 Agreement with Ericsson Radio Systems AB dated May 28, 1998
- ##+4.(a).7 Agreement with LM Ericsson Israel Ltd. dated November 25, 2002
- ^#4.(a).8 Dealer Agreement with Super-Pharm dated February 12, 2004
- >>#4.(a).8.1 Amendment to the Dealer Agreement with Super-Pharm, dated July 8, 2007
- \*\*4.(a).9 Lease Agreement with Mivnei Taasia dated July 2, 1998
- ^^4.(a).13 Asset Purchase Agreement with Med-1 dated as of January 22, 2006
- ###4.(a).14 Amendments Nos. 1 to 6 to our License from the Israeli Ministry of Communications
- +4.(a).15 Amendments Nos. 7 to 11 to our License from the Israeli Ministry of Communications
- ++4.(a).16 Amendments Nos. 12 to 17 to our License from the Israeli Ministry of Communications
- +++4.(a).17 Amendments Nos. 18 to 23 to our License from the Israeli Ministry of Communications
- ^4.(a).18 Amendments Nos. 24 to 31 to our License from the Israeli Ministry of Communications
- ^^4.(a).19 Amendments Nos. 32 to 34 to our License from the Israeli Ministry of Communications
- >4.(a).20 Amendments Nos. 35 to 44 to our License from the Israeli Ministry of Communications
- >>4.(a).21 Amendment No. 44 to our License from the Israeli Ministry of Communications
- >>4.(a).22 Amendment No. 45 to our License from the Israeli Ministry of Communications
- >>>4.(a).23 Amendment No. 46 to our License from the Israeli Ministry of Communications
- >>>4.(a).24 Amendment No. 47 to our License from the Israeli Ministry of Communications
- >>>4.(a).25 Amendment No. 48 to our License from the Israeli Ministry of Communications
- >>>4.(a).26 Amendment No. 49 to our License from the Israeli Ministry of Communications
- 4.(a).27 Amendment No. 50 to our License from the Israeli Ministry of Communications issued May 7, 2009
- 4.(a).28 Amendment No. 51 to our License from the Israeli Ministry of Communications issued July 28, 2009
- 4.(a).29 Amendment No. 52 to our License from the Israeli Ministry of Communications issued October 28, 2009
- 4.(a).30 Amendment No. 53 to our License from the Israeli Ministry of Communications issued January 31, 2010
- >4.(a).58 Special License from the Israeli Ministry of Communications for the Provision of Fixed-Line Domestic Transmission and Data Communications Services issued August 14, 2006.
- >4.(a).59 Amendment No. 1 to Special License for the Provision of Fixed-Line Domestic Transmission and Data Communications Services issued September 10, 2006.
- >4.(a).60 Exclusive General License from the Israeli Ministry of Communication for the Provision of Domestic Fixed-Line Telecommunications Services issued January, 15 2007.
- >4.(a).60.1 Amendment No. 1 to Fixed-Line License from the Israeli Ministry of Communications issued January 14, 2007
- >4.(a).60.2 Amendment No. 2 to Fixed-Line License from the Israeli Ministry of Communications issued January 31, 2007
- >4.(a).60.3 Amendment No. 3 to Fixed-Line License from the Israeli Ministry of Communications issued February 19, 2007
- >>4.(a).60.4 Amendment No. 4 to Fixed-Line License from the Israeli Ministry of Communications issued July 11, 2007
- >>4.(a).60.5 Amendment No. 5 to Fixed-Line License from the Israeli Ministry of Communications issued October 10, 2007

- >>>4.(a).60.6 Amendment No. 6 to Fixed-Line License from the Israeli Ministry of Communications issued August 11, 2008
- >>>4.(a).60.7 Amendment No. 7 to Fixed-Line License from the Israeli Ministry of Communications issued December 25, 2008
- 4.(a).60.8 Amendment No. 8 to Fixed-Line License from the Israeli Ministry of Communications issued May 7, 2009



- 4.(a).60.9 Amendment No. 9 to Fixed-Line License from the Israeli Ministry of Communications issued May 27, 2009
- ^4.(a).64 Facility Agreement dated April 14, 2005
- #+++4.(a).65 Purchase Agreement with Nortel Networks Israel (Sales and Marketing) Ltd. dated November 12, 2003.
- ^4.(a).66 Share Buy Back Agreement dated February 7, 2005
- #>>4.(a).67 Swap Agreement with LM Ericsson Israel Ltd. dated December 20, 2007
- #4.(a).68 Facility Agreement dated October 1, 2009
- #4.(a).69 Facility Agreement dated November 24, 2009
- #4.(a).70 Facility Agreement dated December 2, 2009
- #4.(a).71 Loan Agreement dated December 27, 2009
- #4.(b).1 Addendum to Lease Agreements from November 1, 2002 and Lease Agreements in Beit Ofek
- 4.(b).2 Registration Rights Agreement
- 6. See Note 2w to our consolidated financial statements for information explaining how earnings (loss) per share information was calculated.
- >>8. List of Subsidiaries (see “Item 4C – Organizational Structure”).
- 12.(a).1 Certification by CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 12.(a).2 Certification by CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 13.(a).1 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- \*\* Incorporated by reference to our registration statement on Form F-1 (No. 333-10992).
  - \*\*\* Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2000.
  - + Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2001.
  - ++ Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2002.
  - +++ Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2003.
  - ^ Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2004.
  - ^^ Incorporated by reference to our registration statement on Form F-6 (No. 333-132680).
  - ^^^ Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2005.
  - > Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2006.
  - >> Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2007.
  - >>> Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2008.

# Confidential treatment requested.

Confidential material has been redacted and has been separately filed with the Securities and Exchange Commission.

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GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

The following explanations are not intended as technical definitions, but to assist the reader in understanding certain terms as used in this annual report.

|                                  |   |
|----------------------------------|---|
| AMPS                             | Advanced Mobile Phone System; the analogue cellular telephone technology adopted in the United States. Also N-AMPS (Narrowband AMPS), a more frequency-efficient variant of AMPS.   |
| Analog Technology                | A technology in which some property of an electrical signal is varied proportionally to the input signal being transmitted, stored or processed. Fixed transmitter/receiver equipment in each cell of a cellular  |
| Base Transceiver Station (“BTS”) | telecommunications network that communicates by radio with all cellular telephones in that cell.  |
| Base Station Controller (“BSC”)  | Monitors and controls one or more base stations in order to exchange messages, handover cellular units from cell to cell and perform other system administrative tasks.   |
| Blocked call                     | Where a cellular phone call fails because no channels are available in the cell in which the user is located.   |
| CDMA                             | Code Division Multiple Access; a method by which many users sharing the same radio channel can be distinguished by unique code numbers.   |
| Cell                             | In a cellular telephone system, the coverage area of a single base transceiver station or one sector therein.   |
| Channel                          | A frequency or time slot in a telecommunications system over which distinct messages can be conveyed.   |
| Churn                            | The number of customers who are disconnected from a network, either involuntarily, due to payment delinquency or suspected fraudulent use, or voluntarily, as customers switch to competing networks, relocate outside the network’s service area, or cease using cellular telephones permanently or temporarily. |
| D-AMPS                           | Digital Advanced Mobile Phone System; a digital mobile system first implemented in the United States and intended initially to permit gradual upgrading of AMPS networks.   |
| Dropped call                     | When a cellular phone call is involuntarily terminated.   |
| GPRS                             | General Packet Radio Services (GPRS) is a packet-based wireless communication service that enables data rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users. GPRS is based on GSM communication.   |
| GSM                              | The Global System for Mobile Communications, a comprehensive digital standard for the operation of all elements of a mobile telephone system. GSM originated in Europe, but is now the most popular digital mobile telephone standard worldwide.  |

GSM 900

GSM operation in the 900 MHz frequency band; the original frequency band allocated to GSM, later extended by 10 MHz (EGSM).

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|                                 |  |
|---------------------------------|--|
| GSM 1800                        | GSM operation in the 1800 MHz frequency band; formerly known as DCS 1800 or PCN, first allocated for the expansion of mobile network competition in Europe, now used for the same purpose in many other areas.   |
| GSM 1900                        | GSM operation in the 1900 MHz band; primarily used in North and South America  |
| GSM Association                 | Formerly known as the GSM Memorandum of Understanding Association (GSM MoU), an organization of operators, government administrations, and equipment and service suppliers that promotes the development and promulgation of the GSM standard and relations between GSM operators.   |
| HSCSD                           | High Speed Circuit Switched Data is an infrastructure development which enables the transmission of data at higher speeds than the 9600 Bps speed previously available on GSM networks.  |
| HSPA                            | HSPA technology describes the third generation (UMTS) cellular High Speed Packet Access protocol that combines both the High Speed Downlink Packet Access (HSPDA) and High Speed Uplink Packet Access (HSUPA) modes for high performance WCDMA (Wide Band CDMA) systems.   |
| Intelligent Network (“IN”)      | Network architecture that centralizes the processing of calls and billing information of calls.  |
| ISP                             | Internet service provider.   |
| LTE                             | “Long Term Evolution” - a 3rd Generation Partnership Project (“3GPP”) term that defines the next evolution of the 3GPP standard cellular network. The main characteristics are a use of better modulation, coding, transmission and reception techniques, and with the combination of bigger spectrum bands, gives the end user much higher data rates (up to 150 Mbps). |
| Mobile Switching Center (“MSC”) | A large, computer-based device used to connect calls within a cellular network and as the interface of the cellular network to other networks.   |
| Roaming                         | The mobile telephone feature that permits subscribers of one network to use their mobile telephones and telephone numbers when in another operator's network.  |
| RTT                             | Real-time technology.  |
| SMS                             | Short message service, a service which enables cellular telephone users to send and receive written messages on their handsets.  |
| UMTS/3G                         | Universal Cellular Telecommunications System, the “third generation” of cellular telecommunications standard, also referred to as UMTS.  |
| Virtual Private Network (“VPN”) | A private network provided by means of the facilities of a public telephone network but which operates by logic as a closed user group thereby providing the convenience of a private network with the economy of scale of a public network.   |
| Voice Over Broadband (“VoB”)    | A competitive Voice Telephony service, provided over broadband IP infrastructure (e.g. cables, ADSL), mainly by ISPs.  |



Voice Over Broadband A service enabling cellular subscribers to make voice calls using voice over IP technology over cellular (“VoBoC”)The subscriber must have a WiFi or a cellular broadband connection in order to use this service.

VOD Video on demand.

WAP Wireless Application Protocol, a language specifically developed for cellular telephones that facilitates internet usage.

WLAN Wireless local area network.

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SIGNATURES

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Partner Communications  
Company Ltd.

By: /s/ David Avner  
David Avner  
Chief Executive Officer  
March 16, 2010

By: /s/ Emanuel Avner  
Emanuel Avner  
Chief Financial Officer  
March 16, 2010



PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)  
2009 ANNUAL REPORT

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PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
2009 ANNUAL REPORT

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The amounts are stated in New Israeli Shekels (NIS) in millions.

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Report of Independent Registered Public Accounting Firm

To the Shareholders of

PARTNER COMMUNICATIONS COMPANY LTD.

We have completed integrated audits of Partner Communications Company Ltd.'s ("the Company" or "Partner") consolidated financial statements and of its internal control over financial reporting as of December 31, 2009, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our integrated audits, are presented below.

Consolidated financial statements

We have audited the consolidated statement of financial position of Partner as of December 31, 2009 and 2008 and January 1, 2008, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our integrated audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Partner as of December 31, 2009 and 2008, and January 1, 2008, and the results of its operations, changes in equity and its cash flows for each of the two years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Internal control over financial reporting

Also, in our opinion, the Company maintained, in all material respects, effective internal control over its financial reporting as of December 31, 2009, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and management is responsible for the assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15(b). Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the

assessed risk. Our audit also includes performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Tel-Aviv, Israel  
March 16, 2010

Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member of PricewaterhouseCoopers  
International Limited

PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

|   | Note | New Israeli shekels |              | December 31,<br>2009 | Convenience                                      |
|---|------|---------------------|--------------|----------------------|--|
|   |      | January 1,<br>2008  | 2008         |                      | translation<br>into U.S.<br>dollars<br>(note 2a) |
|   |      | In millions         |              |                      | 2009   |
| <b>CURRENT ASSETS</b>                     |      |                     |              |                      |  |
| Cash and cash equivalents                 |      | 148                 | 184          | 329                  | 87   |
| Trade receivables                         | 7    | 1,121               | 1,103        | 1,275                | 338  |
| Other receivables                         |      | 50                  | 33           | 31                   | 8  |
| Inventories                               | 8    | 133                 | 125          | 158                  | 42   |
| Derivative financial instruments          | 6    | 27                  | 27           | 14                   | 4  |
|   |      | 1,479               | 1,472        | 1,807                | 479  |
| <b>NON CURRENT ASSETS</b>                 |      |                     |              |                      |  |
| Trade Receivables                         | 7    | 446                 | 417          | 474                  | 126  |
| Property and equipment, net               | 9    | 1,690               | 1,935        | 2,064                | 546  |
| Licenses and other intangible assets, net | 10   | 1,381               | 1,260        | 1,260                | 334  |
| Deferred income taxes                     | 22   | 85                  | 81           | 14                   | 4  |
| Derivative financial instruments          | 6    |                     |              | 4                    | 1  |
|   |      | 3,602               | 3,693        | 3,816                | 1,011  |
| <b>TOTAL ASSETS</b>                       |      | <b>5,081</b>        | <b>5,165</b> | <b>5,623</b>         | <b>1,490</b>                                     |

The financial statements were authorized for issue by the board of directors on March 16, 2010 and were signed on its behalf.

David Avner  
Chief Executive Officer

Emanuel Avner  
Chief Financial Officer

Barry Ben-Zeev (Woolfson)  
Director

|  |            | New Israeli shekels |       | Convenience translation into U.S. dollars (note 2a) |       |
|--|------------|---------------------|-------|---|-------|
|  |            | January 1, 2008     | 2008  | December 31, 2009                                   | 2009  |
|  | Note       | In millions         |       |   |       |
| <b>CURRENT LIABILITIES</b>   |            |                     |       |   |       |
| Current maturities of notes payable and other liabilities and current borrowings   | 13, 14, 15 | 28                  | 568   | 752   | 199   |
| Trade payables   |            | 750                 | 819   | 777   | 206   |
| Parent group - trade   | 23         | 3                   | 4     | 34  | 9     |
| Other payables   | 11         | 256                 | 246   | 238   | 63    |
| Deferred revenue   |            | 53                  | 48    | 56  | 15    |
| Provisions   | 12         |                     |       | 34  | 9     |
| Derivative financial instruments   | 6          | 19                  | 7     | 4   | 1     |
| Current income tax liability   |            | 48                  | 42    | 20  | 5     |
|  |            | 1,157               | 1,734 | 1,915   | 507   |
| <b>NON CURRENT LIABILITIES</b>   |            |                     |       |   |       |
| Notes payable  | 14         | 2,056               | 1,613 | 1,379   | 365   |
| Non-current bank borrowings  | 13         |                     |       | 300   | 80    |
| Liability for employee rights upon retirement, net   | 16         | 31                  | 53    | 38  | 10    |
| Dismantling and restoring sites obligation   | 12         | 19                  | 23    | 23  | 6     |
| Other non current liabilities  | 15         | 3                   | 10    | 6   | 2     |
|  |            | 2,109               | 1,699 | 1,746   | 463   |
| <b>TOTAL LIABILITIES</b>   |            | 3,266               | 3,433 | 3,661   | 970   |
| <b>EQUITY</b>  | 18         |                     |       |   |       |
| Share capital - ordinary shares of NIS 0.01 par value: authorized - December 31, 2008, and 2009 - 235,000,000 shares; issued and outstanding - |            |                     |       |   |       |
| January 1, 2008 – 157,320,770 shares   |            |                     |       |   |       |
| December 31, 2008 – 153,419,394 shares   |            |                     |       |   |       |
| December 31, 2009 – 154,440,136 shares   |            | 2                   | 2     | 2   | 1     |
| Capital surplus  |            | 2,429               | 2,446 | 2,483   | 658   |
| Accumulated deficit  |            | (616)               | (365) | (172)   | (46)  |
| Treasury shares, at cost - December 31, 2008 and 2009 - 4,467,990 shares   |            |                     | (351) | (351)   | (93)  |
| <b>TOTAL EQUITY</b>  |            | 1,815               | 1,732 | 1,962   | 520   |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |            | 5,081               | 5,165 | 5,623   | 1,490 |

The accompanying notes are an integral part of the financial statements.





PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
CONSOLIDATED STATEMENTS OF INCOME

|                                     | Note  | New Israeli shekels                     |       | Convenience                       |
|-------------------------------------|-------|---|-------|-----------------------------------|
|                                     |       | Year ended December 31                  |       | translation                       |
|                                     |       | 2008                                    | 2009  | Into U.S.<br>Dollars<br>(note 2a) |
|                                     |       | In millions (except earnings per share) |       |                                   |
| Revenues                            | 5     | 6,302                                   | 6,079 | 1,610                             |
| Cost of revenues                    | 5, 19 | 3,868                                   | 3,770 | 998                               |
| Gross profit                        |       | 2,434                                   | 2,309 | 612                               |
| Selling and marketing expenses      | 19    | 388                                     | 387   | 103                               |
| General and administrative expenses | 19    | 284                                     | 290   | 77                                |
| Other income - net                  | 20    | 64                                      | 69    | 19                                |
| Operating profit                    |       | 1,826                                   | 1,701 | 451                               |
| Finance income                      | 21    | 30                                      | 28    | 7                                 |
| Finance expenses                    | 21    | 214                                     | 204   | 54                                |
| Finance costs, net                  | 21    | 184                                     | 176   | 47                                |
| Profit before income tax            |       | 1,642                                   | 1,525 | 404                               |
| Income tax expenses                 | 22    | 444                                     | 384   | 102                               |
| Profit for the year                 |       | 1,198                                   | 1,141 | 302                               |
| Earnings per share                  |       |   |       |                                   |
| Basic                               |       | 7.71                                    | 7.42  | 1.96                              |
| Diluted                             | 24    | 7.65                                    | 7.37  | 1.95                              |

The accompanying notes are an integral part of the financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|   | Note | New Israeli shekels    |              | Convenience |
|---|------|------------------------|--------------|-------------|
|   |      | 2008                   | 2009         | translation |
|   |      | Year ended December 31 |              | into U.S.   |
|   |      | In millions            |              | dollars     |
|   |      |                        |              | (note 2a)   |
|   |      |                        |              | 2009        |
| Profit for the year   |      | 1,198                  | 1,141        | 302         |
| Other comprehensive income (losses)                                       |      |                        |              |             |
| Actuarial gains (losses) on defined benefit plan                          | 16   | (18 )                  | 16           | 4           |
| Income taxes relating to actuarial gains (losses) on defined benefit plan | 22   | 5                      | (4 )         | (1 )        |
| Other comprehensive income (losses) for the year, net of income taxes     |      | (13 )                  | 12           | 3           |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                            |      | <b>1,185</b>           | <b>1,153</b> | <b>305</b>  |

The accompanying notes are an integral part of the financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|  | Note | Share capital    |        | Capital surplus | Accumulated deficit | Treasury shares | Total  |
|--|------|------------------|--------|-----------------|---------------------|-----------------|--------|
|  |      | Number of shares | Amount |                 |                     |                 |        |
| In millions  |      |                  |        |                 |                     |                 |        |
| New Israeli Shekels:                                 |      |                  |        |                 |                     |                 |        |
| BALANCE AT JANUARY 1, 2008                           |      | 157,320,770      | 2      | 2,429           | (616 )              | -               | 1,815  |
| CHANGES DURING THE YEAR ENDED DECEMBER 31, 2008      |      |                  |        |                 |                     |                 |        |
| Total comprehensive income for the year              |      |                  |        |                 | 1,185               |                 | 1,185  |
| Exercise of options granted to employees             |      | 566,614          | *      | 17              |                     |                 | 17     |
| Employee share-based compensation expenses           |      |                  |        |                 | 8                   |                 | 8      |
| Dividend   | 18   |                  |        |                 | (942 )              |                 | (942 ) |
| Treasury Shares, at cost (4,467,990 shares)          |      |                  |        |                 |                     | (351 )          | (351 ) |
| BALANCE AT DECEMBER 31, 2008                         |      | 157,887,384      | 2      | 2,446           | (365 )              | (351 )          | 1,732  |
| CHANGES DURING THE YEAR ENDED DECEMBER 31, 2009      |      |                  |        |                 |                     |                 |        |
| Total comprehensive income for the year              |      |                  |        |                 | 1,153               |                 | 1,153  |
| Exercise of options granted to employees             |      | 1,020,742        | *      | 37              |                     |                 | 37     |
| Employee share-based compensation expenses           |      |                  |        |                 | 22                  |                 | 22     |
| Dividend   | 18   |                  |        |                 | (982 )              |                 | (982 ) |
| BALANCE AT DECEMBER 31, 2009                         |      | 158,908,126      | 2      | 2,483           | (172 )              | (351 )          | 1,962  |
| Convenience translation into u.s. dollars (note 2a): |      |                  |        |                 |                     |                 |        |
|  |      | 157,887,384      | 1      | 648             | (97 )               | (93 )           | 459    |

|                      |    |             |   |     |        |       |        |
|----------------------|----|-------------|---|-----|--------|-------|--------|
| BALANCE AT           |    |             |   |     |        |       |        |
| JANUARY 1, 2009      |    |             |   |     |        |       |        |
| CHANGES              |    |             |   |     |        |       |        |
| DURING THE YEAR      |    |             |   |     |        |       |        |
| ENDED                |    |             |   |     |        |       |        |
| DECEMBER 31,         |    |             |   |     |        |       |        |
| 2009                 |    |             |   |     |        |       |        |
| Total comprehensive  |    |             |   |     |        |       |        |
| income for the year  |    |             |   |     | 305    |       | 305    |
| Exercise of options  |    |             |   |     |        |       |        |
| granted to employees | 18 | 1,020,742   | * | 10  |        |       | 10     |
| Employee share-based |    |             |   |     |        |       |        |
| compensation         |    |             |   |     |        |       |        |
| expenses             |    |             |   |     | 6      |       | 6      |
| Dividend             |    |             |   |     | (260 ) |       | (260 ) |
| BALANCE AT           |    |             |   |     |        |       |        |
| DECEMBER 31, 2009    |    |             |   |     |        |       |        |
|                      |    | 158,908,126 | 1 | 658 | (46 )  | (93 ) | 520    |

\* Representing an amount less than 1 million.

The accompanying notes are an integral part of the financial statements.

(Continued) - 1

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

|  | Note | New Israeli shekels    |            | Convenience                                      |
|--|------|------------------------|------------|--|
|  |      | 2008                   | 2009       | translation<br>into U.S.<br>dollars<br>(note 2a) |
|  |      | Year ended December 31 |            |  |
|  |      | In millions            |            |  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                   |      |                        |            |  |
| Cash generated from operations (Appendix)                      |      | 2,335                  | 2,092      | 553  |
| Income tax paid  | 22   | (420 )                 | (339 )     | (90 )  |
| Net cash provided by operating activities                      |      | 1,915                  | 1,753      | 463  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                   |      |                        |            |  |
| Acquisition of property and equipment                          | 9    | (488 )                 | (526 )     | (139 )   |
| Increase in intangible assets                                  | 10   | (31 )                  | (231 )     | (60 )  |
| Interest received  | 21   | 4                      | 1          |  |
| Proceeds from derivative financial instruments, net            | 6    | 1                      | 24         | 6  |
| Net cash used in investing activities                          |      | (514 )                 | (732 )     | (193 )   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                   |      |                        |            |  |
| Proceeds from exercise of stock options granted to employees   |      | 17                     | 37         | 10   |
| Non-current bank borrowings received                           | 13   |                        | 300        | 80   |
| Proceeds from issuance of notes payable, net of issuance costs | 14   |                        | 446        | 118  |
| Dividend paid  | 18   | (930 )                 | (986 )     | (261 )   |
| Repayment of capital lease                                     | 15   | (7 )                   | (7 )       | (2 )   |
| Purchase of Company's shares by the Company                    | 18   | (351 )                 |            |  |
| Interest paid  | 21   | (92 )                  | (89 )      | (24 )  |
| Current borrowings received (repaid)                           | 13   | 20                     | (20 )      | (5 )   |
| Repayment of non-current bank borrowings                       | 13   | (22 )                  |            |  |
| Repayment of notes payable                                     | 14   |                        | (557 )     | (148 )   |
| Net cash used in financing activities                          |      | (1,365 )               | (876 )     | (232 )   |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                   |      | <b>36</b>              | <b>145</b> | <b>38</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>          |      | <b>148</b>             | <b>184</b> | <b>49</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                |      | <b>184</b>             | <b>329</b> | <b>87</b>  |

The accompanying notes are an integral part of the financial statements.

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(Concluded) - 2

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

## Appendix – Cash generated from operations and supplemental information

|  | Note  | New Israeli shekels     |              | Convenience                                      |
|--|-------|-------------------------|--------------|--|
|  |       | 2008                    | 2009         | translation<br>into<br>U.S. dollars<br>(note 2a) |
|  |       | Year ended December 31, |              |  |
|  |       | In millions             |              | 2009   |
| <b>Cash generated from operations:</b>                             |       |                         |              |  |
| Profit for the year  |       | 1,198                   | 1,141        | 302  |
| <b>Adjustments for:</b>  |       |                         |              |  |
| Depreciation and amortization                                      | 9, 10 | 463                     | 577          | 154  |
| Employee share based compensation expenses                         | 18    | 9                       | 22           | 6  |
| Liability for employee rights upon retirement, net                 | 16    | 5                       | 1            |  |
| Finance costs, net   | 21    | 101                     | 84           | 22   |
| Gain from change in fair value of derivative financial instruments | 6     | (13 )                   | (18 )        | (5 )   |
| Interest paid  | 21    | 92                      | 89           | 24   |
| Interest received  | 21    | (4 )                    | (1 )         |  |
| Deferred income taxes  | 22    | 8                       | 63           | 17   |
| Income tax paid  | 22    | 420                     | 339          | 90   |
| Capital loss on sale of property and equipment                     | 9     | 1                       | 3            |  |
| <b>Changes in operating assets and liabilities:</b>                |       |                         |              |  |
| <b>Decrease (increase) in accounts receivable:</b>                 |       |                         |              |  |
| Trade  | 7     | 47                      | (229 )       | (61 )  |
| Other  |       | 17                      | 2            |  |
| <b>Increase (decrease) in accounts payable and accruals:</b>       |       |                         |              |  |
| <b>Parent group- trade</b>   |       |                         |              |  |
| Trade  | 23    | 1                       | (17 )        | (5 )   |
| Other payables   | 11    | (17 )                   | 6            | 2  |
| Provisions   | 12    |                         | 34           | 9  |
| Deferred revenue   |       | (5 )                    | 8            | 2  |
| Current income tax liability                                       | 22    | (6 )                    | (22 )        | (6 )   |
| Decrease (increase) in inventories                                 | 8     | 8                       | (33 )        | (9 )   |
| <b>Cash generated from operations:</b>                             |       | <b>2,335</b>            | <b>2,092</b> | <b>553</b>                                       |

Supplementary information

At December 31, 2008 and 2009, trade payables include NIS 220 million and NIS 179 million, respectively, in respect of acquisition of property and equipment.

At December 31, 2008 and 2009 tax withholding related to dividend of approximately NIS 18 million and NIS 14 million, respectively is outstanding, see also note 18(h).

During 2008 the Company has undertaken a capital lease with respect to property and equipment in the amount of NIS 7.2 million.

These balances are recognized in the cash flow statements upon payment.

As to dismantling and restoring sites obligation see note 12.

The accompanying notes are an integral part of the financial statements.



PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

a. Partner Communications Company Ltd. ("the Company", "Partner") operates a mobile telecommunications network in Israel. The Company is controlled by Scailex Corporation Ltd ("Scailex"). The address of the Company's Principal Executive Offices is 8 Amal Street, Afeq Industrial Park, Rosh-Ha'ayin 48103, Israel. The Company's capital consists of ordinary shares, which are traded on the Tel Aviv Stock Exchange under the symbol "PTNR". American Depositary Shares ("ADSs"), each representing one of the Company's ordinary shares, are quoted on the NASDAQ Global Market under the symbol "PTNR".

On October 28, 2009, Advent Investments Pte Ltd. ("Advent"), a wholly-owned subsidiary of Hutchison Telecommunications International Limited ("Hutchison Telecom"), sold its entire controlling interest in the Company to Scailex. Scailex, an Israeli corporation listed on the Tel Aviv Stock Exchange, is a majority owned subsidiary of Suny Electronic inc. ltd ("Suny"), which is also an Israeli corporation listed on the Tel Aviv Stock Exchange and indirectly controlled by Mr. Ilan Ben-Dov. In separate transactions, Suny acquired 1.41% of the Company's issued and outstanding shares and total voting rights. As a result of his indirect control of Scailex (which holds 44.82% of the Company's issued and outstanding shares and voting rights) and Suny, Mr. Ilan Ben-Dov indirectly controlled 46.23% of the Company's issued and outstanding shares and total voting rights as of January 31, 2010.

The ultimate holding company is Suny, since it is the parent company of Scailex. Hutchison Telecom was the Company's parent company through October 28, 2009, and Scailex is the Company's parent company since October 28, 2009.

b. The Company through its subsidiaries and partnership provides telecommunications services consisting mainly of cellular services: airtime and content. In addition, the Company provides under the fixed-line segment: (1) Internet services provider ("ISP") that provides access to the internet as well as home WiFi networks, value added services ("VAS") such as anti-virus and anti-spam filtering; (2) Transmission services; (3) fixed line telephony services: voice over broadband ("VOB") and Primary Rate Interface ("PRI") fixed-line telephone services; as well as (3) an on-line media shop, under the brand "orange time", providing premium on-demand video (mainly full-track feature films and series' episodes), music tracks and games; . The Company sells equipment for the cellular segment and for the fixed-line segment: mainly handsets, phones, domestic routers, and related equipment.

Content services include voice mail, text and multimedia messaging, as well as downloadable wireless data applications, including ring tones, music, games, and other informational content. Generally, these enhanced features and data application generate additional service revenues through monthly subscription fees of increased usage utilization of the features and applications. In addition the Company provides an on-line media shop, under the brand "orange time", providing premium on-demand video (mainly full-track feature films and series' episodes), music tracks and games. Other optional services, such as equipment extended warranty plans are also provided for a monthly fee and are either sold separately or included in packages rate plans

PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued):

c. The Company was incorporated on September 29, 1997, and operates under a license granted by the Israeli Ministry of Communications ("MOC") to operate a cellular telephone network. The Company commenced full commercial operations on January 1, 1999.

The license is valid through 2022. The Company is entitled to request an extension of the license for an additional period of six years and then renewal for one or more additional six year periods. Should the license not be renewed, the new license-holder is obliged to purchase the communications network and all the rights and obligations of the subscribers for a fair price, as agreed between the parties or as determined by an arbitrator.

Under the terms of the license, the Company provided a bank guarantee in NIS equivalent of USD 10 million to the State of Israel to secure the Company's adherence to the terms of the license.

In March 2001, the Company received a special license granted by the Ministry of Communications, allowing the Company through its own facilities to provide internet access to land-line network customers. The license was renewed in April 2008 and is valid until April 2013. The Company began supplying commercial ISP services beginning in January 2009.

In January, 2007, the Ministry of Communications granted Partner Fixed Communication Solutions Limited Partnership, which is fully owned by the Company, a license for the provision of domestic land-line telecommunications services. The license expires in 20 years but may be extended by the Ministry of Communications for successive periods of 10 years provided that the licensee has complied with the terms of the license and has acted consistently for the enhancement of telecom services and their enhancement. The Company deposited a bank guarantee in the amount of NIS 10 million with the Ministry of Communications upon receiving the license which shall be used to secure the Company's obligations under the License. The license was amended in February 2007 to grant the Company the right to offer Voice Over Broadband ("VoB") services using the infrastructure of Bezeq and HOT to access customers and to provide them with land-line telephony service. The License was further amended in July 2007 to incorporate the provision of transmission and data communications services that were previously provided for under a transmission license that was granted in July 2006.

In March 2009, the Company was also granted a domestic land-line license to provide land-line services to the Israeli populated areas in the West Bank. The license is effective until March 2019

PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of preparation of the financial statements

The consolidated financial statements of the Company as of December 31, 2009 ("the financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

IFRSs are standards and interpretations that have been adopted by the International Accounting Standards Board. These standards include:

- (a) International Financial Reporting Standards (IFRSs);
- (b) International Accounting Standards (IASs), and;
- (c) Interpretations by the International Financial Reporting Interpretation Committee (IFRICs) or its predecessor, the Standing Interpretations Committee (SICs).

The financial statements are in the scope of IFRS1 First Time Adoption of International Financial Reporting Standards ("IFRS1") as they present annual financial statements of the Company for the years ending December 31, 2009, and 2008 subsequent to the transition date to IFRS ,under IFRS1, which is January 1, 2008 (the "transition date").

Comparative data of the Company in these financial statements was restated to retrospectively reflect the adoption of IFRS. As to the effect of the transition from reporting under generally accepted accounting principles in the United States of America ("US GAAP") to reporting under IFRS on comparative data in the financial statements, and exemptions elected by the Company under IFRS1 – See note 25.

The principle accounting policies setout below have been consistently applied to all periods presented unless otherwise stated, in accordance with the exemptions granted by IFRS1, See note 25.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, and requires management to exercise its judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Basis of measurement:

The financial statements have been prepared on the basis of historical cost convention except for the following assets and liabilities:

- (a) Derivative financial instruments are measured and presented at their fair values through profit or loss.
- (b) Property and equipment were revalued to the fair value on the transition date, see note 25 and note 2(f).
- (c) Liability for employee rights upon retirement, net, is valued based on the present value of the defined benefit obligation less fair value of the plan assets, see note 16.
- (d) Until December 31, 2003 the Israeli economy was considered hyperinflationary according to IFRS. Therefore upon the transition to IFRS the value of non-monetary assets, licenses and equity items that were measured on the basis of historical cost under US GAAP have been adjusted for changes in the general purchasing power of the Israeli currency – NIS, based upon changes in the Israeli Consumer Price Index ("CPI") until December 31, 2003, see note 25.

The Company recognizes revenues and expenses net of value added taxes.

Convenience translation into U.S. Dollars (USD):

The NIS figures at December 31, 2009 and for the period then ended have been translated into dollars using the representative exchange rate of the dollar at December 31, 2009 (USD 1 = NIS 3.775). The translation was made solely for convenience, is supplementary information, and is distinguished from the financial statements. The translated dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into, dollars.

b. Foreign currency translations

(1) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company and its subsidiaries and partnership operate (the "functional currency"). The financial statements are measured and presented in New Israeli Shekels ("NIS"), which is the Company's and its subsidiaries' functional and presentation currency. The amounts presented at NIS millions are rounded to the nearest NIS million.

(2) Transactions and balances

Balances in, or linked to, foreign currency are stated on the basis of the exchange rates prevailing at the end of the reporting period. Foreign currency transactions included in the statements of income are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Transaction gains or losses arising from changes in the exchange rates used in the translation of such balances are carried to financial income or expenses.



PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Principles of consolidation

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than half of the voting rights.

- 1) The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and Partnership.
- 2) Intercompany balances and transactions between the Group's entities have been eliminated.
- 3) Accounting policies of subsidiaries and partnership have been changed when necessary to ensure consistency with the accounting policies adopted by the Company.

List of wholly owned Subsidiaries and partnership:

Partner Land-Line Communications Solutions - Limited Partnership  
Partner Future Communications 2000 Limited ("PFC")  
Partner Business Communications Solution - Limited Partnership - not active  
Partner Net Limited – not active

d. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (regarded as Chief Operation Decision-Maker, CODM) who is responsible for allocating resources and assessing performance of the operating segments.

The Company has early adopted the amendment to paragraph 23 to IFRS 8 included in Improvements to IFRSs issued in April 2009, and therefore the segment information does not include information in respect of segments assets, in conformity to the information that is regularly provided to the CODM.

e. Inventories

Inventories of cellular telephones (handsets), related accessories, spare parts, ISP modems and related equipment are stated at the lower of cost or net realizable value. Cost is determined on the "first-in, first-out" basis. The Company determines its allowance for inventory obsolescence and slow moving inventory, based upon expected inventory turnover, inventory aging and current and future expectations with respect to product offerings.

f. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation, and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

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PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

## f. Property and equipment (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Changes in the obligation to dismantle and remove assets on sites and to restore the site on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the assets in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized immediately in profit or loss, See (q) below.

The Company adopted an exemption provided in IFRS1, allowing to measure the Company's property and equipment as of the transition date to IFRS at fair value, and to use this value as its deemed cost as of that date. The deemed cost was based upon an appraisal, performed by management with the assistance of independent appraisers. The appraisal was based on considering the different elements and components of the property and equipment, and assigning them the appropriate estimation of useful live and fair value.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

|  | years                     |
|--|---------------------------|
| Communications network:                                  |                           |
| Physical layer and infrastructure                        | 10 - 25 (mainly 15, 10)   |
| Other Communication network                              | 3 - 15 (mainly 7, 10, 15) |
| Computers, hardware and software for information systems | 3-10 (mainly 3-5)         |
| Office furniture and equipment                           | 7-10                      |
| Optic fibers and related assets                          | 7-25 (mainly 20)          |

Leasehold improvements are amortized by the straight-line method over the term of the lease (including reasonably assured option periods), or the estimated useful life (5-10 years) of the improvements, whichever is shorter.

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Licenses and other intangible assets

1) Licenses:

The licenses to operate a cellular communication services are recognized at cost, adjusted for changes in the CPI until December 31, 2003 (See note 2 a(d)), and are amortized using the straight line method over their contractual period –the period ending in 2022. Borrowing costs which served to finance the license fee - incurred until the commencement of utilization of the license - were capitalized to cost of the license.

The license for providing fixed-line telephone services is stated at cost and is amortized by the straight-line method over the contractual period of 20 years, starting in 2007.

2) Customer relationships:

The customer relationships were acquired in a business combination, and stated at cost. Customer relationships with carriers are amortized over the estimated useful life which is 7 years using the straight-line method. Customer relationships with business customers are amortized over the estimated useful life which is 5 years using the straight-line method.

3) Computer software:

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and to bring to use the specified software. These costs are amortized over their estimated useful lives (3 to 7 years) using the straight-line method.

Costs associated with maintaining computer software are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met: (a) it is technically feasible to complete the software product so that it will be available for use; (b) management intends to complete the software product and use it; (c) there is an ability to use the software product; (d) it can be demonstrated how the software product will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use the software product are available; and

(f) the expenditure attributable to the software product during its development can be reliably measured. Costs that are directly associated with the developing softwares controlled by the Company are recognized as intangible assets, and amortized over their estimated useful lives (3 to 7 years). Direct costs include costs of software development employees.

4) Subscriber Acquisition and Retention Costs (SARC):

Costs to acquire or retain postpaid mobile telecommunication subscribers, pursuant to a contract with early termination penalties are capitalised if (1) such costs are identifiable and controlled; (2) it is probable that future economic benefits will flow from the subscribers to the Company; and (3) such costs can be measured reliably. If

costs do not meet the aforementioned criteria they are recognized immediately as expenses. The cost of the subsidized handset less the subscriber's payment towards the handset, and sales commissions, are included in the subscriber acquisition and retention costs. Capitalized subscriber acquisition and retention costs are amortized over their expected useful life which is not longer than their minimum enforceable period, which is generally a period of 18 months, using the straight-line method. In the event that a subscriber churns off the network or the arrangement is canceled within the period, any unamortized subscriber acquisition or retention costs are written off in the period in which the subscriber churns. The criteria for capitalization of SARC are met for transaction occurring after January 1, 2009.

PARTNER COMMUNICATIONS COMPANY LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Impairment of non-financial assets

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped to cash-generating units.

i. Financial instruments

The Company classifies its financial instruments in the following categories: (1) at fair value through profit or loss, (2) loans and receivables, and (3) liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired or assumed. Management determines the classification of its financial instruments at initial recognition.

1. Financial instruments at fair value through profit or loss category:

This category includes embedded derivative financial instruments and freestanding derivative financial instruments. These derivatives do not qualify for hedge accounting. Instruments in this category are classified as current if they are expected to mature within 12 months after the end of the reporting period; otherwise they are classified as non-current. Gains or losses arising from changes in the fair value of these derivative financial instruments are presented in the income statement within "finance costs, net" in the period in which they arise.

2. Loans and receivables category:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method, less any impairment loss. The Company's loans and receivables comprise "trade receivables" and "other receivables" and "cash and cash equivalents" in the statement of financial position. See also (r) (3) below regarding revenue recognition from non-current credit arrangements.

Ordinary purchases and sales of financial instruments are carried at the date of settlement, which is the date that an instrument is delivered to or by the Company.

Financial instruments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.



PARTNER COMMUNICATIONS COMPANY LTD.  
(An Israeli Corporation)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

i. Financial instruments (continued)

3. Financial liabilities at amortized cost category:

Financial liabilities at amortized cost are non-derivative financial instruments with fixed or determinable payment. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities. Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs, and subsequently measured at amortized costs using the effective interest method.

The Company's financial liabilities at amortized cost category include notes payable, bank borrowings, and accounts payables, in the statement of financial position.

j. Cash and Cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to 3 months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

k. Trade Receivables

Trade receivables are recognized initially at fair value. Non-current receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment (allowance for doubtful accounts). The allowance is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, or delinquency or default in debtor payments are considered indicators that trade receivable is impaired. The amount of the allowance is determined as a percentage of specific debts doubtful of collection, based upon historical experience and future expectations.

The Company factors most of its non-current trade receivables resulting from sales of handsets by credit cards. The factoring is executed through a clearing company, on a non-recourse basis. The factoring of accounts receivable is recorded by the Company as a sales transaction, and derecognized under the provisions of IAS 39 financial instruments: recognition, and measurement.

The results of the factoring transaction are charged to financial income and expenses on the transaction date.

l. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Company's share capital (treasury shares) acquired by the Company are presented as a reduction of equity, at the consideration paid. Including any attributable incremental costs, net of taxes. Treasury shares do not have a right to receive dividends or to vote.



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

m. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. Trade payables are recognised initially at fair value.

n. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings include notes payable, current and non-current borrowings from banks, credit facilities, and liability in respect of capital lease.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

o. Employee benefits

1. Defined contribution plan

According to section 14 of the Israeli Severance Pay Law some of the Company's liability for employee rights upon retirement is covered by regular contributions in defined contribution plans. The Company has no legal or constructive obligations to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current or prior periods. The amounts funded as above are not reflected in the statement of financial position.

Obligations for contributions to defined contribution pension plans are recognized as an expense in statement of income when they are due.

The Company's liability for post employment benefits is covered by a defined contribution plan financed by deposits with insurance companies or with funds managed by a trustee.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- o. Employee benefits (continued)
  - 2. Defined benefit plan

Labor laws and agreements, and the practice of the Company, require paying retirement benefits to employees dismissed or retiring in certain other circumstances, measured by multiplying the years of employment by the last monthly salary of the employee (i.e. one monthly salary for each year of tenure), the obligation of the Company to pay retirement benefits is treated as a defined benefit plan.

The defined benefit obligation is recognized in the statement of financial position at the present value of the defined benefit obligation at end of the reporting period less the fair values of plan assets. The defined benefit obligation is calculated annually using the projected unit credit method.

The measuring of liability and plan assets are based on calculation made by an external actuarial expert.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (after taking into account the expected rate of salary increases and other actuarial assumptions) using interest rates of Israeli Government bonds that are denominated in the currency in which the benefits will be paid (NIS) and that have terms to maturity approximating the terms of the related liability.

Under IAS19 Employee Benefits ("IAS19"), the discount rate used for computing actuarial liability will be determined using market yields of high-quality corporate bonds at the end of the reporting period. However, IAS19 points out that in countries where there is no deep market in such bonds, the yield of government bonds should be used instead. Therefore, the interest rate used by the Company to discount expected future cash flows for the purpose of computing the actuarial commitment is determined based on the interest rate of Israeli Government bonds since the Company's management is in the opinion that Israel does not have a deep market for high-quality corporate bonds.

Actuarial gains and losses resulting from changes in actuarial valuation and differences between past assumptions and actual results are charged or credited to equity in other comprehensive income in the period in which they arise. The Company classifies interest costs in respect of the defined benefit plan obligation and the expected returns on the plan assets as part of finance costs - net.



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

- o. Employee benefits (continued)
- 3. Vacation and recreation benefits

The employees are legally entitled to vacation and recreation benefits, both computed on an annual basis. This entitlement is based on the term of employment. This obligation is treated as a short term benefit under IAS 19. The Company charges a liability and expense due to vacation and recreation pay, based on the benefits that have been accumulated for each employee, on undiscounted basis.

- 4. Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration individual performance and the Company's overall performance.

The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

- 5. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

- p. Share based payment

The Company operates a number of equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted. The total amount expensed is recognized over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of equity instruments that are expected to vest based on the vesting conditions, and recognizes the impact of the revision of original estimates, if any, in the statement of income, with corresponding adjustment to accumulated deficit.

The proceeds received net of any directly attributable transactions costs are credited to share capital and capital surplus when the equity instruments are exercised.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Provisions

Provisions include dismantling and restoring sites obligation, legal claims, and handset warranty.

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will require settling the obligation, and the amount has been reliable estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance costs. See also note 12.

In the ordinary course of business, the Company is involved in a number of lawsuits. The costs that may result from these lawsuits are only accrued for when it is probable that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of legal counsel and on the Company's estimate of the probable settlements amount that are expected to be incurred, if any.

Provisions for handset warranties include obligations to customers in respect of handsets sold.

The Company is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. The dismantling costs are calculated according to best estimate of future expected payments discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

PARTNER COMMUNICATIONS COMPANY LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r.

Revenues

The Company's revenues are measured at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is shown net of Value-Added-Tax, returns, rebates and discounts. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described herein.

(1) Revenues from services:

Revenues from services primarily consist of charges of airtime derived from usage of the Company's networks, including interconnect, roaming, transmission, fixed-line, ISP, certain warranty arrangements, value added services and content services. Revenues are recognized when the services are rendered, and all other revenue recognition criteria are met, net of credits and service discounts.

Revenues from Pre-paid calling cards sold to customers are recognized upon customer's usage of the cards, or expiration.

In accordance with Improvements to IFRSs issued in April 2009: amendment to appendix to IAS 18 Revenue, determining whether an entity is acting as a principal or as an agent, the Company is acting as a principal if it has exposure to the significant risks and rewards associated with the rendering of services. Features that indicate that the Company is acting as a principal include: (a) the Company has the primary responsibility for providing the services to the customer or for fulfilling the order; (b) the Company has latitude in establishing prices, either directly or indirectly; and (c) the Company bears the customer's credit risk for the amount receivable from the customer. On the other hand, the Company is acting as an agent if it does not have exposure to the significant risks and rewards associated with the rendering of services. One feature indicating that the Company is acting as an agent is that the amount the Company earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer. Based on the above considerations the Company determined that it is acting as an agent in respect of certain content services provided by third parties to customers, and therefore the revenues recognized from these services are presented on a net basis in the statement of income.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Revenues (continued)

(2) Revenues from sales of equipment:

Revenue from sale of equipment includes revenue from sale of handsets, routers, phones and related accessories. Revenue is recognized when the significant risks and reward of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods, and the amount of revenue can be measured reliably.

Some sales of handsets with accompanying services constitute a revenue arrangement with multiple deliverables. Accordingly, consideration received is allocated to each deliverable based on the relative fair value of the individual element. The revenue from sales of handsets is recognized at its fair value as equipment revenues upon the delivery of the equipment to the subscriber, when all revenue recognition criteria are met.

The Company determines the fair value of the individual elements based on prices at which the deliverable is regularly sold on a stand alone basis.

The Company subsidizes, in some cases, the sale of the handset to end subscribers by selling it at a price below its cost to secure a fixed-term service contract for the purpose of acquiring new subscribers or retaining existing subscribers. The handset sale is then treated as a non-revenue-generating transaction and accordingly, no revenue is recognized from these types of handset sales. The subsidy, and direct selling expenses are capitalized as elements of subscriber acquisition and retention costs in accordance with accounting policy set out in note 2(g)(4). The subsidy represents the difference between the cost of the handset and the payment received from the subscriber for the handset.

(3) Revenues from non-current credit arrangements:

Revenues from non-current credit arrangements to customers in respect of sales of equipment are recognized on the basis of the present value of future cash flows, discounted at the prevailing rate for a similar instrument of an issuer with a similar credit rating. The difference between the original credit and its present value is recorded as other income over the credit period.

s. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from lessor) are charged to income statements on a straight-line basis over the lease term, including extending options which are reasonably certain.

Leases where the Company, as a lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property and equipment acquired under financial

leases is depreciated over the shorter of the useful live of the asset and the lease term.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Advertising expenses

Advertising expenses are charged to the statement of income as incurred. Advertising expenses for the years ended December 31, 2008 and 2009 totaled NIS 103 million and NIS 118 million, respectively.

u. Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted as of the end of the reporting period. The Company recognized deferred tax in full, using the liability method, on temporary differences arising between the carrying amounts in the financial statements of assets and liabilities and their tax bases.

Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are presented as non-current, see also note 22.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries, because the timing of the reversal of the temporary difference is controlled by the Company and it is not probable that the temporary difference will reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued):

v. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's board of directors, excluding distributions that are pending regulatory approval. See also note 18.

w. Earning Per Share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all dilutive potential ordinary shares. The instruments that are potential dilutive ordinary shares are equity instruments granted to employees.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

The following new standards, amendments to standards or interpretations have been issued, and are mandatory for accounting periods beginning on or after January 1, 2010, and not yet adopted by the Company:

\* IFRS 3 (revised), Business combinations and consequential amendments to IAS 27, Consolidated and separate financial statements, IAS 28, Investments in associates and IAS 31, Interests in joint ventures, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to business combinations from January 1, 2010. This is not currently applicable to the Company.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued):

\* IAS 27 (revised), Consolidated and separate financial statements, (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 1, 2010. The Company currently does not have non-controlling interests.

\* IAS 38 (amendment), Intangible Assets. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. This is not currently applicable to the Company.

\* IFRS 2 (amendments), Group cash-settled and share-based payment transactions. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Company's financial statements.



PARTNER COMMUNICATIONS COMPANY LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued):

\* IFRS 9, Financial instruments: Classification and measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis.
- While adoption of IFRS 9 is mandatory from January 1, 2013, earlier adoption is permitted.

The Company is considering the implications of the standard, the impact, if any, on the Company and the timing of its adoption.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 –CRITICAL ACCTOUNTING ESTIMATES AND JUDGEMENTS:

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Estimates and assumptions

Revenue Recognition:

The Company recognizes service revenues based upon minutes and seconds used, net of credits and adjustments for service discounts. Because the Company's billing cycles use cut-off dates, which for the most part do not coincide with the Company's reporting periods, the Company is required to make estimates for service revenues earned but not yet billed at the end of each reporting period. These estimates are based primarily upon historical data and trends. Actual billing cycle results and related revenue may vary, depending on subscriber usage and rate plan mix, from the results estimated at the end of each period.

In certain cases, cellular handsets are sold to subscribers within the context of airtime packages, in order to allocate the revenues into separate units of accounting; the Company is required to estimate the fair value of each deliverable. These estimates are based upon the price of each deliverable when it is sold on a stand alone basis.

Property and equipment:

The Company has substantial investments in tangible long-lived assets, primarily the Company's communications network. The assets are depreciated on a straight line basis over their useful economic lives. Changes in technology or changes in the Company's intended use of these assets can cause the estimated period of use or the value of these assets to change. The Company reviews the communications network, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If necessary, the Company writes down the assets to their recoverable amounts. The assets useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. See note 2(f).

At the January 1, 2008 transition date to IFRS, the Company chose to state the property and equipment at their fair value and to determine that value as deemed cost, in accordance with the exemption of IFRS 1. As part of the deemed cost, the Company made an estimation of the remaining useful life of each significant component of property and equipment. See note 25

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

a. Estimates (continued):

Licenses:

The licenses to operate a cellular communication services are recognized at cost, adjusted for changes in the CPI until December 31, 2003 (See note 2 a(d)), and are amortized using the straight line method over their contractual period –the period ending in 2022. The license for providing fixed-line telephone services is stated at cost and is amortized by the straight-line method over the contractual period of 20 years, starting in 2007. The estimated amortization period is based management estimations and on the current valid licenses period, excluding any possible future extensions.

The Company reviews the intangibles for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If necessary, the Company writes down the assets to their recoverable amounts.

Subscriber Acquisition and Retention Costs (SARC):

Costs to acquire or retain postpaid mobile telecommunication subscribers, pursuant to a contract with early termination penalties are capitalized in accordance with the policy described in note 2 (g) (4). The costs (the subsidy and fees) associated with these sales, where the Company subsidizes the sale of the handset by selling it below its cost to secure a fixed-term profitable service contract, are considered element of cost and the sale of the handset is treated as non-revenue-generating transaction. Accordingly no revenue is recognized from these types of handset sales. The Company made an estimate of the expected useful life of the SARC, which is not longer than their minimum enforceable period, which is generally a period of 18 months. This estimate is reviewed, and adjusted if appropriate, at the end of each reporting period.

Allowance for Doubtful Accounts:

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the Company's subscribers to make required payments. The Company bases the allowance on the likelihood of recoverability of accounts receivable based on the age of the balances, the Company's historical write-off experience net of recoveries, changes in the credit worthiness of the Company's customers, and collection trends. The allowance is periodically reviewed. The allowance charged to expenses is determined in respect of specific debts doubtful of collection, calculated as a specified percentage of the outstanding balance in each debt age group, with the percentage of the allowance increasing as the age of the debt increases.

b. Judgments

Provisions for legal claims:

The Company exercises judgment in measuring and recognizing provisions and the exposure pending litigation or other outstanding claims including claims for class actions. Judgment is necessary in the assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of final settlement. Provisions are recorded for liabilities when a loss is considered probable and can be reasonably estimated. Because of

the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimations are subject to change as new information becomes available, primarily with the support of internal specialists, or with the support of outside consultants such as legal counsel.

Revisions to the estimates of these losses may affect future operating results.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

b. Judgments (continued):

Regarding determination whether the Company is acting as a principal or as an agent See note 2(r).

Sales of equipment with accompanying services:

The revenue recognition criteria are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. When the selling price of an arrangement includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. The Company made judgments to determine that certain sales of equipment with accompanying services constitute an arrangement with multiple deliverables, and accordingly, consideration received is allocated to each deliverable based on the relative fair value of the individual element.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 5 – SEGMENT INFORMATION

The operating segments were determined based on the reports reviewed by Chief Executive Officer (CEO) that makes strategic decisions, who is the Chief Operating Decision Maker ("CODM"). The CEO considers the business from two operating segments, as follows:

- (1) Cellular business – consists mainly of cellular services as: airtime, interconnect and content. In addition, this segment includes selling of related equipments: mainly handsets cellular phones, and related equipment
- (2) Fixed line business - consist of a number of services provided over fixed-line networks: Transmission services; Primary Rate Interface ("PRI") lines for business sector customers; Voice over Broadband ("VoB") telephony services; and Internet service provider ("ISP") services. In addition, this segment includes selling of related equipments such as routers and phones.

Each segment is divided to services and equipment relating to revenues and cost of revenues. The reportable operating segments include the following measures: revenues, cost of revenues, operating profit (loss), and Earning Before Interest expenses, Tax, Depreciation and Amortization ("EBITDA"). The CODM does not examine assets or liabilities for those segments, therefore they are not presented.

|   | New Israeli Shekels<br>Year ended December 31, 2009<br>In millions |                       |  |              |
|---|--|-----------------------|--|--------------|
|   | Cellular<br>segment  | Fixed line<br>segment | Reconciliation<br>for<br>consolidation | Consolidated |
| Segment revenue - Services                    | 5,369  | 55                    |  | 5,424        |
| Inter-segment revenue - Services              | 11   | 33                    | (44 )                                  |              |
| Segment revenue - Equipment                   | 628  | 27                    |  | 655          |
| Total revenues                                | 6,008  | 115                   | (44 )                                  | 6,079        |
| Segment cost of revenues – Services           | 3,091  | 115                   |  | 3,206        |
| Inter-segment cost of revenues- Services      | 33   | 11                    | (44 )                                  |              |
| Segment cost of revenues - Equipment          | 518  | 46                    |  | 564          |
| Cost of revenues                              | 3,642  | 172                   | (44 )                                  | 3,770        |
| Gross profit (loss)                           | 2,366  | (57 )                 |  | 2,309        |
| Operating expenses                            | 626  | 51                    |  | 677          |
| Other income                                  | 69   |                       |  | 69           |
| Operating profit (loss)                       | 1,809  | (108 )                |  | 1,701        |
| Adjustments to presentation of EBITDA         |  |                       |  |              |
| –depreciation and amortization                | 552  | 25                    |  | 577          |
| –other  | 26   |                       |  | 26           |
| EBITDA  | 2,387  | (83 )                 |  | 2,304        |
| Reconciliation of EBITDA to profit before tax |  |                       |  |              |
| - Depreciation and amortization               |  |                       |  | (577 )       |
| - Finance costs, net                          |  |                       |  | (176 )       |

|   |   |   |       |
|---|---|---|-------|
| - Other                                       |   |   | (26 ) |
| Profit before tax                             |   |   | 1,525 |
| Allowance for decline in value of inventories | 7 | 2 | 9     |

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 5 – SEGMENT INFORMATION (continued):

|   | New Israeli Shekels<br>Year ended December 31, 2008<br>In millions |                       |  |              |
|---|--|-----------------------|--|--------------|
|   | Cellular<br>segment  | Fixed line<br>segment | Reconciliation<br>for<br>consolidation | Consolidated |
| Segment revenue - Services                    | 5,521  | 25                    |  | 5,546        |
| Inter-segment revenue - Services              | 2  | 15                    | (17 )                                  |              |
| Segment revenue - Equipment                   | 756  | -                     |  | 756          |
| Total revenues                                | 6,279  | 40                    | (17 )                                  | 6,302        |
| Segment cost of revenues – Services           | 2,969  | 56                    |  | 3,025        |
| Inter-segment cost of revenues- Services      | 15   | 2                     | (17 )                                  |              |
| Segment cost of revenues - Equipment          | 842  | 1                     |  | 843          |
| Cost of revenues                              | 3,826  | 59                    | (17 )                                  | 3,868        |
| Gross profit (loss)                           | 2,453  | (19 )                 |  | 2,434        |
| Operating expenses                            | 656  | 16                    |  | 672          |
| Other income                                  | 64   |                       |  | 64           |
| Operating profit (loss)                       | 1,861  | (35 )                 |  | 1,826        |
| Adjustments to presentation of EBITDA         |  |                       |  |              |
| –depreciation and amortization                | 445  | 18                    |  | 463          |
| –other  | 9  |                       |  | 9            |
| EBITDA  | 2,315  | (17 )                 |  | 2,298        |
| Reconciliation of EBITDA to profit before tax |  |                       |  |              |
| - Depreciation and amortization               |  |                       |  | (463 )       |
| - Finance costs, net                          |  |                       |  | (184 )       |
| - Other                                       |  |                       |  | (9 )         |
| Profit before tax                             |  |                       |  | 1,642        |
| Allowance for decline in value of inventories | 5  | -                     |  | 5            |

EBITDA is a non-GAAP financial measure that represents earnings before interest, taxes, depreciation and amortization. EBITDA, however, should not be considered as an alternative to operating income or income for the year as an indicator of the Company's operating performance. Similarly, EBITDA should not be considered as an alternative to cash flow 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 Company's historic operating results nor is it meant to be predictive of potential future results. See also note 13 (f).



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTE 6 – FINANCIAL RISK MANAGEMENT:

a. Financial risk factors

The Company is exposed to a variety of financial risks: credit, liquidity and market risks as part of its normal course of business. The Company's risk management objective is to monitor risks and minimize the possible influence that results from this exposure, according to its evaluations and expectations of the parameters that affect the risks. The Company uses freestanding derivative instruments in order to partially cover its exposure to foreign currency exchange rate and CPI fluctuations. The freestanding derivative instruments are used for economic risk management that does not qualify for hedge accounting.

1. Risk Management

Risk management is carried out by the treasury department under policies approved by the board of directors. The board resolves principles for overall risk management, such as foreign exchange risk, CPI linkage risk and usage of derivative financial instruments.

2. Market risk

The Company enters into foreign currency freestanding derivative transactions in order to protect itself against the risk that the eventual dollar cash flows resulting from the anticipated payments in respect of purchases of handsets and capital expenditures in foreign currency will be affected by changes in exchange rates. In addition the Company enters into derivative transactions in order to protect itself against the change in the CPI in respect of the principal of the CPI-linked Notes payable. However, these contracts do not qualify for hedge accounting under IAS 39.

The Company does not hold or issue derivative financial instruments for trading purposes.

Fair value interest rate risk

The Company's notes payable are with fixed interest rate and are measured and presented in the statement of financial position at amortized cost, therefore changes in the current market interest rate do not affect the financial statements nor cash flows in respect of the notes payable. However their fair values depend on the current market interest rate.

Cash flow risk

The Company is exposed to fluctuations in the Israeli Consumer Price index (CPI), as the majority of its borrowings are linked to the CPI. As part of its risk management policy the Company has entered into forward contracts that partially mitigate the exposure to changes in the CPI.

Foreign exchange risk

The Company's operating income and cash flows are exposed to currency risk, mainly due to handset and network related acquisitions and its roaming activity. As part of its risk management policy the Company uses forward to partially mitigate the exposure to fluctuations in foreign exchange rates (mainly USD).

Price risk

The Company is not exposed to price risk since it does not hold investments in securities.



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

## Linkage of monetary balances:

The Company's exposure to foreign currency risk and CPI was based on the following financial instruments:

|  | December 31, 2008   |                      |                 | December 31, 2009   |                      |                 |
|--|---|----------------------|-----------------|---|----------------------|-----------------|
|  | In or linked<br>to foreign<br>currencies<br>(mainly<br>USD) | NIS linked<br>to CPI | NIS<br>unlinked | In or linked<br>to foreign<br>currencies<br>(mainly<br>USD) | NIS linked<br>to CPI | NIS<br>unlinked |
|  | New Israeli Shekels In millions                             |                      |                 |   |                      |                 |
| <b>Current assets</b>  |   |                      |                 |   |                      |                 |
| Cash and cash equivalents  |   |                      | 184             |   |                      | 329             |
| Trade receivables  |   |                      | 1,103           |   |                      | 1,275           |
| Other receivables  |   |                      | 19              |   |                      | 8               |
| Derivative financial<br>instruments (*)  | 23  | 4                    |                 | 3   | 11                   |                 |
| <b>Non- current assets</b>   |   |                      |                 |   |                      |                 |
| Trade receivables  |   |                      | 417             |   |                      | 474             |
| Derivative financial<br>instruments (*)  |   |                      |                 |   | 4                    |                 |
| <b>Total assets</b>  | <b>23</b>   | <b>4</b>             | <b>1,723</b>    | <b>3</b>  | <b>15</b>            | <b>2,086</b>    |
| <b>Current liabilities</b>   |   |                      |                 |   |                      |                 |
| <b>Current maturities of notes<br/>payable and of other liabilities<br/>and current borrowings</b> |   |                      |                 |   |                      |                 |
| Trade payables   | 282   | 546                  | 537             | 224   | 752                  | 553             |
| Other payables   |   |                      | 246             |   |                      | 238             |
| Parent group - trade   | 4   |                      |                 | 19  |                      | 15              |
| Derivative financial instruments<br>(*)  | 1   | 6                    |                 | 4   |                      |                 |
| <b>Non- current liabilities</b>  |   |                      |                 |   |                      |                 |
| Non-current borrowings   |   |                      |                 |   |                      | 300             |
| Notes payable  |   | 1,613                |                 |   | 1,379                |                 |
| Other  |   | 5                    |                 |   | 2                    |                 |
| <b>Total liabilities</b>   | <b>289</b>  | <b>2,170</b>         | <b>803</b>      | <b>247</b>  | <b>2,133</b>         | <b>1,106</b>    |

(\*) relates to freestanding forward derivative financial instruments and embedded derivative financial instruments

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

## Sensitivity analysis

A change of the CPI as at December 31, 2009 and 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

|                        | Change |    | Equity<br>New Israeli Shekels | Profit<br>In millions |
|------------------------|--------|----|-------------------------------|-----------------------|
| December 31, 2009      |        |    |                               |                       |
| Increase in the CPI of | 2.0    | %  | (41 )                         | (41 )                 |
| Decrease in the CPI of | (2.0)  | )% | 41                            | 41                    |
| December 31, 2008      |        |    |                               |                       |
| Increase in the CPI of | 2.0    | %  | (27 )                         | (27 )                 |
| Decrease in the CPI of | (2.0)  | )% | 27                            | 27                    |

A change of the USD exchange rate as at December 31, 2009 and 2008 would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables remain constant.

|                        | Change |    | Equity<br>New Israeli Shekels | Profit<br>In millions |
|------------------------|--------|----|-------------------------------|-----------------------|
| December 31, 2009      |        |    |                               |                       |
| Increase in the USD of | 5.0    | %  | (12 )                         | (12 )                 |
| Decrease in the USD of | (5.0)  | )% | 10                            | 10                    |
| December 31, 2008      |        |    |                               |                       |
| Increase in the USD of | 5.0    | %  | (6 )                          | (6 )                  |
| Decrease in the USD of | (5.0)  | )% | 5                             | 5                     |

## Data regarding the dollar exchange rate and the Israeli CPI:

|                                      | Exchange<br>rate of one<br>dollar | Israeli<br>CPI*  |
|--------------------------------------|-----------------------------------|------------------|
| At December 31:                      |                                   |                  |
| 2009                                 | NIS 3.775                         | 206.19<br>points |
| 2008                                 | NIS 3.802                         | 198.42<br>points |
| Increase (decrease) during the year: |                                   |                  |
| 2009                                 | (0.7 )%                           | 3.9 %            |
| 2008                                 | (1.1 )%                           | 3.8 %            |

\* Based on the index for the month ending on the end of each reporting period, on the basis of 1993 average = 100 points.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6– FINANCIAL RISK MANAGEMENT (continued):

Details regarding the derivative financial instruments - foreign exchange and CPI risk management:

The notional amounts of derivatives as of December 31, 2008 and 2009 are as follows:

|   | New Israeli shekels<br>December 31 |      |
|---|------------------------------------|------|
|   | 2008                               | 2009 |
|   | In millions                        |      |
| Forward transactions for the changes in the Israeli CPI     | 800                                | 430  |
| Forward transactions for the exchange of dollars into NIS   | 380                                | 113  |
| Forward transactions for the exchange of Euros into NIS     | 32                                 | -    |
| Embedded derivatives -<br>for the exchange NIS into dollars | 310                                | 163  |

See also note 6(4) regarding maturity dates of the derivative financial instruments.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

## 3. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables from subscribers, and also from cash and cash equivalents, freestanding forward contrast, and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company conducts credit evaluations on receivables in certain types over a certain amount, and requires collaterals against them. Management monitors outstanding receivable balances and the financial statements include appropriate allowances for estimated irrecoverable amounts.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was:

|  | New Israeli shekels<br>December 31 |       |
|--|------------------------------------|-------|
|  | 2008                               | 2009  |
|  | In millions                        |       |
| Cash and cash equivalents                        | 184                                | 329   |
| Trade receivables including non-current amounts  | 1,520                              | 1,749 |
| Forward exchange contracts on foreign currencies | 19                                 | -     |
| Forward exchange contracts on CPI                | 4                                  | 15    |
| Other receivables                                | 19                                 | 8     |
|  | 1,746                              | 2,101 |

The cash and cash equivalents are held in leading Israeli commercial banks, rated by Standard & Poor's Maalot at between ilAA- negative to ilAA+ negative. The Forward contracts are signed with leading Israeli commercial banks, rated by Standard & Poor's Maalot at ilAA+ negative.

The trade receivables are significantly widespread, and include individuals and businesses, and therefore have no representing credit rating.

See also note 7 as to the assessment by aging of the trade receivables and related allowance for doubtful accounts.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

## 4. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's policy is to ensure that it has sufficient cash and cash equivalents, and credit facilities to meet expected operational expenses, dividends, and financial obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

The amounts disclosed in the table are the contractual undiscounted cash flows.

| December 31, 2009                     | 1st year                        | 2nd year | 3rd year | 4 to 5 years | More than<br>5 years | Total |
|---------------------------------------|---------------------------------|----------|----------|--------------|----------------------|-------|
|                                       | New Israeli Shekels In millions |          |          |              |                      |       |
| Notes payable series A                | 809                             | 778      | 189      |              |                      | 1,776 |
| Notes payable series B                | 16                              | 15       | 15       | 252          | 236                  | 534   |
| Non-current bank borrowings           | 7                               | 6        | 6        | 307          |                      | 326   |
| Trade and other payables              | 777                             |          |          |              |                      | 777   |
| Parent group - trade                  | 34                              |          |          |              |                      | 34    |
| Other liabilities                     | 2                               | 2        |          |              |                      | 4     |
| Foreign currency forward<br>contracts | 3                               |          |          |              |                      | 3     |
| Embedded derivatives                  | 1                               |          |          |              |                      | 1     |
|                                       | 1,649                           | 801      | 210      | 559          | 236                  | 3,455 |

| December 31, 2008                        | 1st year                        | 2nd year | 3rd year | 4 to 5<br>years | More<br>than<br>5 years | Total |
|--|---------------------------------|----------|----------|-----------------|-------------------------|-------|
|  | New Israeli Shekels In millions |          |          |                 |                         |       |
| Notes payable series A                   | 628                             | 780      | 749      | 182             |                         | 2,339 |
| Trade and other<br>payables              | 819                             |          |          |                 |                         | 819   |
| Parent group - trade                     | 4                               |          |          |                 |                         | 4     |
| Other liabilities                        | 6                               | 2        | 3        |                 |                         | 11    |
| Foreign currency<br>forward<br>contracts | 1                               |          |          |                 |                         | 1     |
| CPI forward contracts                    | 6                               |          |          |                 |                         | 6     |
|  | 1,464                           | 782      | 752      | 182             |                         | 3,180 |

See notes 14 and 15 in respect of issuance of notes payable series B and new credit facilities.  
See note 18 in respect of special dividend in the amount of NIS 1.4 billion.



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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

## 4. Liquidity risk (continued)

The following table shows expected cash flows of the freestanding forward contracts that were recognized as financial liabilities.

| As at December 31, 2009                                    | 1st year                        | 2nd<br>year | Total |
|--|---------------------------------|-------------|-------|
|  | New Israeli Shekels In millions |             |       |
| Foreign currency forward contracts: amounts to be received | 75                              |             | 75    |
| Foreign currency forward contracts: amounts to be paid     | (78 )                           |             | (78 ) |
|  | (3 )                            |             | (3 )  |
|  |                                 |             |       |
| As at December 31, 2008                                    | 1st year                        | 2nd<br>year | Total |
|  | New Israeli Shekels In millions |             |       |
| Foreign currency forward contracts: amounts to be received | 95                              |             | 95    |
| Foreign currency forward contracts: amounts to be paid     | (96 )                           |             | (96 ) |
|  | (1 )                            |             | (1 )  |
| CPI forward contracts to be settled net                    | (6 )                            |             | (6 )  |

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

b. Capital risk management

See note 13(f) regarding financial covenants in respect of credit facilities.  
See note 18(h) regarding dividends policy

c. Fair values of financial instruments

Effective 1 January 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The financial instruments that are measured at fair value through profit or loss are derivative financial instruments.

The fair value of forward contracts are calculated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date (Level 2).

The fair value of embedded derivatives financial instruments is estimated by discounting the difference between the contractual price and the current price for the residual maturity of the contract using a risk free interest rate (level 2).

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 6 – FINANCIAL RISK MANAGEMENT (continued):

## c. Fair values of financial instruments (continued):

As detailed in note 2(i) the financial instruments are categorized as following:

\* Fair Value Through Profit or Loss (FVTPL)

\* Loans and Receivables (L&R)

\* Amortized Cost (AC)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| Category                         | December 31, 2008 |            |                        | December 31, 2009 |            |                        | Interest rate used(**) |
|----------------------------------|-------------------|------------|------------------------|-------------------|------------|------------------------|------------------------|
|                                  | Carrying amount   | Fair value | Interest rate used(**) | Carrying amount   | Fair value | Interest rate used(**) |                        |
| New Israeli Shekels In millions  |                   |            |                        |                   |            |                        |                        |
| <b>Assets</b>                    |                   |            |                        |                   |            |                        |                        |
| Cash and cash equivalents        | L&R               | 184        | 184                    |                   | 329        | 329                    |                        |
| Trade receivables (***)          | L&R               | 1,520      | 1,530                  | 6 %               | 1,749      | 1,754                  | 4.25 %                 |
| Other receivables (*)            | L&R               | 19         | 19                     |                   | 8          | 8                      |                        |
| Derivative financial instruments | FVTPL Level 2     | 27         | 27                     |                   | 18         | 18                     |                        |
| <b>Liabilities</b>               |                   |            |                        |                   |            |                        |                        |
| Notes payable series A           | AC                | 2,155      | 2,169                  | Market quote      | 1,681      | 1,765                  | Market quote           |
| Notes payable series B (****)    | AC                |            |                        |                   | 448        | 434                    | 4.19 %                 |
| Trade payables and other (*)     | AC                | 819        | 819                    |                   | 777        | 777                    |                        |
| Non-current bank borrowing       | AC                |            |                        |                   | 300        | 300                    |                        |
| Parent group – trade (*)         | AC                | 4          | 4                      |                   | 34         | 34                     |                        |
| Capital lease obligation         | AC                | 11         | 11                     |                   | 4          | 4                      |                        |
| Derivative financial             | FVTPL Level 2     | 7          | 7                      |                   | 4          | 4                      |                        |

## instruments

Current bank  
borrowings  
including  
current  
maturities (\*)

|    |    |    |
|----|----|----|
| AC | 20 | 20 |
|----|----|----|

(\*) The fair value of these current financial instrument does not differ significantly from its carrying amount, as the impact of discounting is not significant.

(\*\*) Weighted average of interest rate used.

(\*\*\*) The fair value of trade receivables is based on discounted cash flows using rates based on the average borrowing rates.

(\*\*\*\*) The fair value of notes payable series B trade is based on discounted cash flow calculations.

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## NOTE 7 – TRADE RECEIVABLES:

| (a)                             | Composition:        |                     |        |
|---------------------------------|---------------------|---------------------|--------|
|                                 | New Israeli Shekels |                     |        |
|                                 | January 1<br>2008   | December 31<br>2008 | 2009   |
|                                 | In millions         |                     |        |
| Trade (current and non-current) | 1,813               | 1,837               | 2,056  |
| Deferred interest income        | (83 )               | (67 )               | (58 )  |
| Allowance for doubtful accounts | (163 )              | (250 )              | (249 ) |
|                                 | 1,567               | 1,520               | 1,749  |
| Current                         | 1,121               | 1,103               | 1,275  |
| Non - current                   | 446                 | 417                 | 474    |

Non-current trade receivables bear no interest. These balances are in respect of equipment sold in installments (18-36 monthly payments). Income in respect of deferred interest is the difference between the original and the present value of the trade receivable as of the end of the reporting period. The current amount is computed on the basis of the interest rate relevant at the date of the transaction (2008 – 4.35% - 7.52%) (2009 – 4% - 5.25%).

During 2009 and 2008 the Company factored most of its non-current trade receivables resulting from sales of handsets by credit cards. The factoring was executed through a clearing company, on a non-recourse basis. The factoring of accounts receivable was recorded by the Company as a sales transaction under the provisions of IAS 39. During the year ended December 31, 2009 and 2008, the Company factored NIS 124 million and NIS 290 million of trade receivables with credit cards. The resulting costs were charged to "finance expenses" in the statement of income, as incurred.

## (b) Allowance for doubtful accounts:

The changes in the allowance for the years ended December 31, 2008 and 2009 are as follows:

|                              | New Israeli Shekels |       |
|------------------------------|---------------------|-------|
|                              | Year ended          |       |
|                              | 2008                | 2009  |
|                              | In millions         |       |
| Balance at beginning of year | 163                 | 250   |
| Utilization during the year  | (4 )                | (72 ) |
| Change during the year       | 91                  | 71    |
| Balance at end of year       | 250                 | 249   |

Doubtful accounts expenses are recorded in the statement of income under General and Administrative expenses.

See note 5 regarding trade receivables credit risk.



PARTNER COMMUNICATIONS COMPANY LTD.  
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## NOTE 7 – TRADE RECEIVABLES (continued):

## (b) Allowance for doubtful accounts (continued):

The aging of gross trade receivables and their respective allowance for doubtful accounts as of, December 31, 2008 and 2009 is as follows:

|                             | Gross<br>2008 | Allowance<br>New Israeli Shekels<br>December 31<br>2008 | Gross<br>In millions<br>December 31<br>2009 | Allowance |
|-----------------------------|---------------|---|---|-----------|
| Not past due                | 1,522         | 56  | 1,734                                       | 57        |
| Past due less than one year | 117           | 44  | 104   | 33        |
| Past due more than one year | 198           | 150   | 218   | 159       |
|                             | 1,837         | 250   | 2,056                                       | 249       |

Trade receivables that are not past due are rated by the Company as risk class 1, and trade receivables that are past due are rated by the Company as risk class 2.

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the end of the reporting period that the debtors will not meet their payment obligations.

## NOTE 8 – INVENTORY:

## a. Composition

|                                  | New Israeli Shekels |             |      |
|----------------------------------|---------------------|-------------|------|
|                                  | January 1<br>2008   | December 31 |      |
|                                  |                     | 2008        | 2009 |
|                                  |                     | In millions |      |
| Handsets                         | 94                  | 77          | 106  |
| Accessories and other            | 19                  | 21          | 27   |
| Spare parts                      | 20                  | 22          | 18   |
| ISP modems and related equipment | -                   | 5           | 7    |
|                                  | 133                 | 125         | 158  |

- b. Inventories at December 31, 2009, are presented net of an allowance for decline in value in the amount of NIS 9 million (December 31, 2008 – NIS 5 million, January 1, 2008 - NIS 4 million).

The cost of inventory recognized as expenses and included in cost of revenue for the years ended December 31, 2008 and 2009 amounted to NIS 843 million, and NIS 564 millions respectively.



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## NOTE 9 – PROPERTY AND EQUIPMENT, NET:

|                                 | Communication<br>network | Computers(**) | Optic<br>fibers and<br>related<br>assets | Office<br>furniture<br>and<br>equipment | Leasehold<br>improvements | Total |
|---------------------------------|--------------------------|---------------|--|---|---------------------------|-------|
| New Israeli Shekels In millions |                          |               |  |   |                           |       |
| <b>Cost</b>                     |                          |               |  |   |                           |       |
| Balance at January 1, 2008 (*)  | 1,287                    | 93            | 134                                      | 11                                      | 165                       | 1,690 |
| Additions                       | 382                      | 46            | 108                                      | 7                                       | 15                        | 558   |
| Disposals                       | 9                        | 1             |  |   |                           | 10    |
| Balance at December 31, 2008    | 1,660                    | 138           | 242                                      | 18                                      | 180                       | 2,238 |
| Additions                       | 316                      | 85            | 59                                       | 9                                       | 20                        | 489   |
| Disposals                       | 45                       | 1             |  |   |                           | 46    |
| Balance at December 31, 2009    | 1,931                    | 222           | 301                                      | 27                                      | 200                       | 2,681 |
| <b>Accumulated Depreciation</b> |                          |               |  |   |                           |       |
| Balance at January 1, 2008      |                          |               |  |   |                           |       |
| Depreciation for the year       | 242                      | 26            | 11                                       | 5                                       | 27                        | 311   |
| Disposals                       | 8                        |               |  |   |                           | 8     |
| Balance at December 31, 2008    | 234                      | 26            | 11                                       | 5                                       | 27                        | 303   |
| Depreciation for the year       | 267                      | 39            | 14                                       | 9                                       | 28                        | 357   |
| Disposals                       | 42                       | 1             |  |   |                           | 43    |
| Balance at December 31, 2009    | 459                      | 64            | 25                                       | 14                                      | 55                        | 617   |
| <b>Carrying amounts, net</b>    |                          |               |  |   |                           |       |
| At January 1, 2008              | 1,287                    | 93            | 134                                      | 11                                      | 165                       | 1,690 |
| At December 31, 2008            | 1,426                    | 112           | 231                                      | 13                                      | 153                       | 1,935 |
| At December 31, 2009            | 1,472                    | 158           | 276                                      | 13                                      | 145                       | 2,064 |

(\*) representing fair value evaluation made on the transition date to IFRS, see also note 2 f.

(\*\*) including capital leased.

Depreciation expenses are included in the statement of income in cost of revenues NIS 280 million and NIS 338 million, selling and marketing expenses NIS 12 million and NIS 7 million, and general and administrative expenses NIS 19 million and NIS 12 million for the years ended December 31, 2008 and 2009 respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 10 – LICENCES AND OTHER INTANGIBLE ASSETS, NET:

|                                 | Licenses                        | Customer<br>relationships | Subscriber<br>acquisition<br>and<br>retention<br>costs | Computer<br>software | Total |
|---------------------------------|---------------------------------|---------------------------|--|----------------------|-------|
|                                 | New Israeli Shekels In millions |                           |  |                      |       |
| <b>Cost</b>                     |                                 |                           |  |                      |       |
| Balance at January 1, 2008      | 2,104                           | 18                        |  | 610                  | 2,732 |
| Additions                       |                                 |                           |  | 31                   | 31    |
| Disposals                       |                                 |                           |  | 2                    | 2     |
| Balance at December 31, 2008    | 2,104                           | 18                        |  | 639                  | 2,761 |
| Additions                       |                                 |                           | 199  | 33                   | 232   |
| Disposals                       | 12                              |                           | 18   | 265                  | 295   |
| Balance at December 31, 2009    | 2,092                           | 18                        | 181  | 407                  | 2,698 |
| <b>Accumulated amortization</b> |                                 |                           |  |                      |       |
| Balance at January 1, 2008      | 932                             | 4                         |  | 415                  | 1,351 |
| Amortization for the year       | 85                              | 3                         |  | 64                   | 152   |
| Disposals                       |                                 |                           |  | 2                    | 2     |
| Balance at December 31, 2008    | 1,017                           | 7                         |  | 477                  | 1,501 |
| Amortization for the year       | 76                              | 3                         | 88   | 53                   | 220   |
| Disposals                       |                                 |                           | 18   | 265                  | 283   |
| Balance at December 31, 2009    | 1,093                           | 10                        | 70   | 265                  | 1,438 |
| <b>Carrying amounts, net</b>    |                                 |                           |  |                      |       |
| At January 1, 2008              | 1,172                           | 14                        |  | 195                  | 1,381 |
| At December 31, 2008            | 1,087                           | 11                        |  | 162                  | 1,260 |
| At December 31, 2009            | 999                             | 8                         | 111  | 142                  | 1,260 |

Amortization expenses are included in the statement of income in cost of revenues.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 11 – OTHER PAYABLES

|   | New Israeli Shekels |             | 2009 |
|---|---------------------|-------------|------|
|   | January 1           | December 31 |      |
|   | 2008                | 2008        |      |
|   | In millions         |             |      |
| Employees and employee institutions       | 135                 | 122         | 137  |
| Liability for vacation and recreation pay | 21                  | 24          | 21   |
| Government institutions                   | 85                  | 82          | 61   |
| Sundry                                    | 15                  | 18          | 19   |
|   | 256                 | 246         | 238  |

## NOTE 12 – PROVISIONS INCLUDING DISMANTLING AND RESTORING SITES OBLIGATION

|                                 | Dismantling<br>and<br>restoring<br>sites<br>obligation | Legal                           | Handset  | Total  |
|---------------------------------|--|---------------------------------|----------|--------|
|                                 |  | claims                          | warranty |        |
|                                 |  | New Israeli shekels In millions |          |        |
| Balance as at January 1, 2009   | 23   |                                 | *        | 23     |
| Additions during the year       | *  | 33                              | 1        | 34     |
| Change in dismantling costs     | (2.5 )   |                                 |          | (2.5 ) |
| Reductions during the year      |  |                                 | *        | *      |
| Unwind of discount              | 2.5  | *                               | *        | 2.5    |
| Balance as at December 31, 2009 | 23   | 33                              | 1        | 57     |
| Non-current                     | 23   | -                               | -        | 23     |
| Current                         | -  | 33                              | 1        | 34     |
| Balance as at December 31, 2008 | 23   |                                 | *        | 23     |
| Non-current                     | 23   |                                 |          | 23     |
| Current                         |  |                                 | *        | *      |

\* Representing an amount less than NIS 1 million

#### Dismantling and restoring sites obligation

The abovementioned additions during the year and reductions during the year are non-cash transactions recorded against Property and equipment.

#### Legal claims

After the end of the reporting period an agreement was reached with the MOC in respect of usage of frequency bands, see note 17 (c) (16).



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – BANK BORROWINGS

- a. The Company had a senior credit facility with leading commercial banks. The facility was divided into two tranches: a USD 150 million term loan facility ("Facility A") and a USD 100 million revolving loan facility ("Facility B"); In 2008, the Company's senior credit facilities consisted of a USD 75 million long-term loan facility (Facility A) and a USD 75 million revolving loan facility (Facility B). On September 1, 2008, Facility A expired, with USD 6 million borrowed and remaining to be repaid under Facility A in 2009. Facility B expired on September 1, 2009. The amounts drawn from facility A and facility B as of December 31, 2008 and 2009 were USD 6 million and nil, respectively. During 2009 the Company used facility B to draw short time credits.
- b. On October 1, 2009, a new facility ("Facility C") was received from a leading Israeli commercial bank. in the amount of NIS 250 million for a maximum period of 5 years, in wholesale interest rate plus a margin of 0.85%. The facility is used for short term financing. The wholesale interest rate of the bank as of December 31, 2009 was 1.1% per year. The Company is charged a commitment fee of 0.4% per year for undrawn amounts. As of December 31, 2009 no funds were drawn from this facility.
- c. On November 24, 2009, a new facility ("Facility D") was received from a leading Israeli commercial bank in the amount of NIS 700 million for a maximum period of 3 years, in wholesale interest rate plus a margin of 0.85%, effective from January 1, 2010. The facility is used for short term financing. The wholesale interest rate of the bank as of December 31, 2009 was 1.15% per year. The Company is charged a commitment fee of 0.4% per year for undrawn amounts.
- d. On December 2, 2009, a new facility ("Facility E") was received from a leading Israeli commercial bank in the amount of NIS 250 million for a maximum period of 3 years, in wholesale interest rate plus a margin of 0.85%, effective from January 1, 2010. The facility is used for short term financing. The wholesale interest rate of the bank as of December 31, 2009 was 1.1% per year. The Company is charged a commitment fee of 0.4% per year for undrawn amounts.
- e. On December 28, 2009, a new loan was received from a leading Israeli commercial bank in the amount of NIS 300 million for a period of 4 years, bearing variable interest at the rate of the Israeli Prime interest rate minus a margin of 0.35%. The interest is payable quarterly. The principal is payable in one payment at the end of the loan period. The Israeli Prime interest rate as of December 31, 2009 was 2.5% per year. The Israeli Prime interest rate is determined by the Bank of Israel and updated on a monthly basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – BANK BORROWINGS (continued):

f. Financial covenants:

With respect to Facilities C, D, E, the loan, and note payable series B (see note 14) the Company undertook to comply with financial covenants, which its main provisions are two ratios:

(1) The ratio of (a) the amount of all financial obligations of the Company including bank guarantees that the Company has undertaken ("Total Debt") to (b) Earnings Before Interest costs, Tax, Depreciation and Amortization expenses ("EBITDA") after deducting Capital Expenditures shall not exceed 6.5; and

(2) The ratio of (a) Total Debt to (b) the EBITDA of the Company shall not exceed 4.

The covenants are measured every six months on an annualized basis of twelve months and are based on the financial results for the preceding period of twelve months.

EBITDA is defined as the sum of (a) the net income before extraordinary items, (b) the amount of tax expenses set against the net profits including, without double counting, any provisions for tax expenses, (c) and amortization and depreciation expenses, and (d) any finance costs net.

The Company was in compliance with all covenants stipulated for the years 2008 and 2009.

See note 6 regarding the Company's exposure to market risks and liquidity risk.

g. Negative pledge:

The Company provided a negative pledge undertaking (i.e., not to pledge any of its assets to a third party), except for a number of exceptions that were agreed upon, including pledge (other than by way of floating charge) in favor of a third party over specific assets or rights of the Company, securing obligations no greater than NIS 100 million in aggregate.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 14 - NOTES PAYABLE:

## Notes payable series A

a. On March 31, 2005, the Company completed an offering of NIS 2,000 million of unsecured notes, which were issued at their NIS par value. The notes have been registered in Israel and are traded on the Tel-Aviv Stock Exchange (TASE). Of these notes approximately NIS 36.5 million were purchased by PFC. PFC also received an additional allocation of notes having an aggregate principal amount of NIS 500 million. These notes that PFC received pursuant to this additional allocation do not confer the right to receive any payment whatsoever on account of principal or interest until they are sold by PFC to a third party.

The net proceeds from the offering were approximately NIS 1,929 million after deducting the notes purchased by PFC, commissions and offering expenses.

The principal amount of the Notes is payable in 12 equal quarterly installments, beginning June 30, 2009.

The Notes bear NIS interest at the rate of 4.25% per annum, linked to the Israeli Consumer Price Index, which is payable quarterly on the last day of each quarter, commencing June 30, 2005.

On December 31, 2009, the Notes closing price was 119.86 points par value. The fair value of the note as of December 31, 2008 and 2009 was NIS 2,169 million and NIS 1,765 million, respectively.

b. The amounts outstanding are as follows:

|                               | New Israeli Shekels  |                     |                     |
|-------------------------------|----------------------|---------------------|---------------------|
|                               | January<br>1<br>2008 | December 31<br>2008 | December 31<br>2009 |
|                               | In millions          |                     |                     |
| Total amount                  | 2,073                | 2,166               | 1,687               |
| Less - offering expenses, net | 17                   | 11                  | 6                   |
| Less - current maturities     | -                    | 542                 | 750                 |
|                               | 2,056                | 1,613               | 931                 |

## PARTNER COMMUNICATIONS COMPANY LTD.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 14 - NOTES PAYABLE (continued):

- c. The principal payments due, linked to the CPI in effect as at each reporting date are as follows:

|                          | New Israeli Shekels |                     |                     |
|--------------------------|---------------------|---------------------|---------------------|
|                          | January 1<br>2008   | December 31<br>2008 | December 31<br>2009 |
|                          | In millions         |                     |                     |
| Year ending December 31: |                     |                     |                     |
| 2009                     | 518                 | 542                 | -                   |
| 2010                     | 691                 | 722                 | 750                 |
| 2011                     | 691                 | 722                 | 750                 |
| 2012                     | 173                 | 180                 | 187                 |
|                          | 2,073               | 2,166               | 1,687               |

- d. On December 27, 2009, the Company announced that its Board of Directors had resolved to distribute a special dividend of NIS 1.4 billion, or NIS 9.04 per share, to the Company's shareholders and reduce equity by NIS 1.4 billion.

Because the amount of the special dividend exceeds the legally available surplus for distribution, on December 31, 2010, the Company submitted an application ("Distribution Application") to the District Court having jurisdiction to request Court approval for the dividend distribution not in accordance with the conditions set forth in the law. Various applications and objections to the Distribution Application were submitted to the Court on behalf of a few holders of the Company's Notes Series A". On February 22, 2010, the Company announced that the District Court had approved a final settlement between the Company and the objecting holders of Notes Series A (the "Settlement") and had approved the Distribution Application. According to the Settlement, in the event of a reduction in the current credit rating of the Notes Series A by the credit rating company S&P Maalot, there would be an increase in the annual linked interest rate of the Notes Series A of 1% in the year 2010, and of 0.5% in the year 2011, for each reduction of one rating category from the current credit rating (AA-). The increase would take effect from the date of publication of the credit downgrading, and remain in effect as long as the credit downgrading is valid. The increase in the interest rate would terminate upon the earlier of a credit upgrade or by the end of the relevant calendar year, whichever occurs first, provided that the increased interest rate applies for at least three months.

As a result, the Company has announced that it will distribute the special dividend on March 18, 2010, to shareholders of record as of March 7, 2010. On the dividend distribution date, the Company's equity will also be reduced by NIS 1.4 billion. See also note 18.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 14 - NOTES PAYABLE (continued):

## Notes payable series B

- a. On November 29, 2009 the Company issued to Israeli institutional investors approximately NIS 448 million of unsecured non-convertible Series B notes through a private placement in Israel. The notes are linked (principal and interest) to increases in the Israeli consumer price index (CPI). The principal amount of Series B notes is repayable in four equal annual installments between 2013 and 2016 and bears interest at an annual rate of 3.4%. The interest is payable on a semi-annual basis.
- b. The interest rate on the Notes has been increased by 0.6% per annum and therefore the interest which is payable now is 4% until a prospectus or a shelf offering report is published for the listing of the Notes for trade on the TASE. The Notes have been rated iIAA-/Stable, on a local scale, by Standard & Poor's Maalot. The Notes are listed for trade on the "Institutional Retzef" a trading system for institutional investors in Israel. The Company has also undertaken to make best efforts to list the Notes for trade on the TASE until June 30, 2010. Nevertheless, in the event the Notes are not listed for trade on the TASE by such date, the interest rate applicable to the Notes prior to their listing as discussed above and below shall remain in effect until future listing of the Notes for trade on the TASE (if any). See note 6 (c) regarding the fair value of the notes payable.

So long as the Notes are not listed for trade on the TASE, the Company has undertaken the following: (i) to pay an additional interest at an annual rate of 0.6% until a prospectus or a shelf offering report is published for the listing for trade of the Notes on the TASE; (ii) to pay a one-time additional interest at an annual rate of 0.25% in the event there was a downgrade in the rating of the Notes from the date of the downgrade announcement by the rating agency, and until a prospectus or a shelf offering report is published for the listing of the Notes for trade on the TASE. Should the rating of the Notes be further downgraded, no additional interest payments will be made following such subsequent downgrades; (iii) a negative pledge (subject to certain curve-outs); and (iv) to undertake additional events of default of the Notes, as follows: (a) the rating of the Notes in Israel decreases below BBB (by Standard & Poor's Maalot or an equivalent rating by another rating agency) on a local scale; and (b) the Company fails to comply with its existing financial covenants, See note 13(f). All such undertakings will be terminated upon the listing of the Notes for trade on the TASE, however, in the event the Notes are deregistered from the TASE (except deregistration resulting from merger or debt arrangement), such undertakings will become effective again (except the undertaking listed in subparagraph (ii) above). The Notes have not been, and will not be, registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to U.S. persons, absent registration or an applicable exemption from registration requirements.

The principal payments due, at rates in effect as at the end of each reporting period are as follows:

|                          | New Israeli<br>Shekels<br>December<br>31, 2009<br>In millions |
|--------------------------|---|
| Year ending December 31: |   |
| 2013                     | 112.25  |
| 2014                     | 112.25  |

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|                                     |        |
|-------------------------------------|--------|
| 2015                                | 112.25 |
| 2016                                | 112.25 |
|                                     | 449    |
| Less - offering expenses            | 1      |
| Included in non-current liabilities | 448    |

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 15 – OTHER NON-CURRENT LIABILITIES

## 1. Non-current prepaid revenues:

The Company entered into several agreements to sell cable capacity. The agreements grant the customer an indefeasible right of use (IRU) of capacity of optics fiber for the life of the cable. Prepaid revenues from sales of cable capacity for the year ended December 31, 2008 and 2009 is NIS 5 million and NIS 4 million, respectively.

## 2. Capital lease:

|                                   | New Israeli Shekels |                     |                     |
|-----------------------------------|---------------------|---------------------|---------------------|
|                                   | January 1<br>2008   | December 31<br>2008 | December 31<br>2009 |
|                                   | In millions         |                     |                     |
| Total commitment                  | 10                  | 11                  | 4                   |
| Less - deferred interest expenses | *                   | *                   | *                   |
|                                   | 10                  | 11                  | 4                   |
| Less - current maturities         | 7                   | 6                   | 2                   |
| Non-current lease commitment      | 3                   | 5                   | 2                   |

\* Representing an amount less than NIS 1 million

The commitments for capital lease are classified by currency of repayment linkage term and interest rates are as follows:

|                   | December 31<br>2009<br>Weighted<br>average<br>interest rates | January 1<br>2008 | New Israeli Shekels   |                     |
|-------------------|--|-------------------|-----------------------|---------------------|
|                   |  |                   | December 31<br>2008   | December 31<br>2009 |
|                   |  |                   | Amount<br>In millions |                     |
| Linked to the USD |  | 6                 | 2                     | -                   |
| Linked to the CPI | 4.6%   | 4                 | 9                     | 4                   |
|                   |  | 10                | 11                    | 4                   |

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT:

Israeli labor laws and agreements require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances.

(1) Most of the Company's severance pay liability to its employees, are based upon length of service and the latest monthly salary (one monthly salary for each year worked).

This liability is treated as a defined benefit plan. In respect of which the Company has plan assets which are held in trusts and foundations. The liability is presented net of the plan assets in the statement of financial position under the "liability for employee rights upon retirement, net".

(2) The rest of the Company's obligation for severance pay is in accordance with section 14 of the Severance Compensation Act and is covered mainly by monthly contributions to trusts and foundations, this liability is treated as a defined contribution plan.

The company had contributed NIS 1 millions in accordance with section 14.

The contributions in accordance with the aforementioned section 14 commenced in 2009.

## PARTNER COMMUNICATIONS COMPANY LTD.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 16 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

The liability for severance pay under a defined benefit plan:

The amounts recognized in the statement of financial position are determined as follows:

|   | New Israeli shekels<br>December 31 |      |
|---|------------------------------------|------|
|   | 2008                               | 2009 |
|   | December 31                        |      |
|   | In millions                        |      |
| Present value of funded obligations   | 134                                | 151  |
| Less: fair value of plan assets   | 81                                 | 113  |
| Liability in the statement of financial position – presented as non-current liability | 53                                 | 38   |

Changes during the year in the obligation recognized in the statement of financial position for post-employment defined benefit plans were as follows:

|                          | New Israeli shekels<br>December 31 |       |
|--------------------------|------------------------------------|-------|
|                          | 2008                               | 2009  |
|                          | December 31                        |       |
|                          | In millions                        |       |
| Balance at January 1     | 116                                | 134   |
| Current service cost     | 29                                 | 32    |
| Interest cost            | 7                                  | 9     |
| Actuarial losses (gains) | 2                                  | (7 )  |
| Benefits paid            | (20 )                              | (17 ) |
| Balance at December 31   | 134                                | 151   |

The changes during the year in the fair value of the plan assets is as follows:

|                                | New Israeli shekels<br>December 31 |       |
|--------------------------------|------------------------------------|-------|
|                                | 2008                               | 2009  |
|                                | December 31                        |       |
|                                | In millions                        |       |
| Balance at January 1           | 86                                 | 81    |
| Expected return on plan assets | 3                                  | 6     |
| Actuarial gains (losses)       | (16 )                              | 9     |
| Employer contributions         | 23                                 | 27    |
| Benefits paid                  | (15 )                              | (10 ) |
| Balance at December 31         | 81                                 | 113   |

The Company expects to contribute NIS 30 million in respect of liability for severance pay under a defined benefit plan in 2010.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 16 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

The amounts recognized in the income statement are as follows:

|  | New Israeli shekels    |       |
|--|------------------------|-------|
|  | Year ended December 31 |       |
|  | 2008                   | 2009  |
|  | In millions            |       |
| Current service cost   | 29                     | 32    |
| Interest cost  | 7                      | 9     |
| Expected return on plan assets   | 3                      | 6     |
| Total expenses recognized in the income statement  | 33                     | 35    |
| Charged to the statement of income as follows:   |                        |       |
| Cost of revenues   | 19                     | 21    |
| Selling and marketing expenses   | 7                      | 7     |
| General and administrative expenses  | 3                      | 4     |
| Finance costs, net   | 4                      | 3     |
|  | 33                     | 35    |
| Actuarial losses (gains) recognized in the statement of comprehensive income, before tax |                        |       |
|  | 18                     | (16 ) |
| Actual loss (return) on plan assets  | 13                     | (15 ) |

The principal actuarial assumptions used were as follows:

|                                | December 31 |   |         |   |
|--------------------------------|-------------|---|---------|---|
|                                | 2008        |   | 2009    |   |
|                                |             | % |         | % |
| Discount rate                  | 5.49        | % | 5.70    | % |
| Inflation rate                 | 2.16        | % | 2.73    | % |
| Expected return on plan assets | 5.49        | % | 5.70    | % |
| Expected turnover rate         | 6% - 27     | % | 8% - 32 | % |
| Future salary increases        | 5.02        | % | 4.92    | % |

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS AND CONTINGENCIES:

a. Commitments:

1) Royalty Commitments

The Company is committed to pay royalties to the Government of Israel on its "income from cellular services" and also income from fixed-line phone services as defined in the "Telecommunications (Royalties) Regulations, 2001" (hereafter - the Regulations), which includes all kinds of income of the Company from the granting of communication services under the licenses - including airtime, roaming services and non-recurring connection fees, but excluding income transferred to another holder of a communications license and deducting bad debts, payments to another communication licensee in respect of interconnection, payments for roaming services to foreign operators and expenses related to the sale of equipment.

During 2004, a reduction in the percentage of royalties was approved; accordingly, the rate of royalty payments (3.5%) paid by cellular operators is reduced annually by 0.5%, starting January 1st 2006, to a level of 1% at 2010.

The royalty expenses for the years ended December 31, 2008 and 2009 were approximately NIS 68 million and NIS 65 million, respectively, and are included under "cost of revenues".

2) Under the Telegraph Regulations the Company is committed to pay an annual fixed fee for each frequency used. The Company paid a total amount of approximately NIS 55 million, for each of the years 2008 and 2009. Under the above Regulations should the Company choose to return a frequency, such payment is no longer due.

3) At December 31, 2009, the Company is committed to acquire property and equipment for approximately NIS 86 million.

4) At December 31, 2009, the Company is committed to acquire handsets for approximately NIS 848 million including an estimation of the following. On June 15, 2009 the Company announced that it has entered into an agreement with Apple Sales International for the purchase and resale of iPhone handsets in Israel. The term of the Agreement is three years during which the Company has agreed to purchase a minimum quantity of iPhone handsets per year which quantity will represent a significant portion of the Company's expected handset purchases over that period. The total cost of the purchases will depend on the prices of the handsets at the time of purchase.

5) See note 13(f) regarding financial covenants and note 13 (g) regarding negative pledge.



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## NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued):

b. Operating leases:

The Company has entered into operating lease agreements as follows:

- 1) After the end of the reporting period an amendment to the lease agreements for its headquarters facility in Rosh Ha'ayin was signed. According to which the lease term is until the end of 2016, and the Company has an option to shorten the lease period to end in 2014. The rental payments are linked to the Israeli CPI.
- 2) Lease agreements for service centers and retail stores for a period of two to five years. The Company has an option to extend the lease periods for up to twenty years (including the original lease periods). The rental payments are linked to the dollar or to the Israeli CPI. Some of the extension options include an increase of the lease payment in a range of 2%-10%.
- 3) Lease agreements in respect of cell sites and switching stations throughout Israel are for periods of two to three years. The Company has an option to extend the lease periods up to ten years (including the original lease periods). The rental payments fees are linked to the dollar or linked to the Israeli CPI. Some of the extension options include an increase of the lease payment in a range of 2%-10%.
- 4) As of December 31, 2009 operating lease agreements in respect of vehicles are for periods of up to three years. The rental payments are linked to the Israeli CPI.
- 5) Non-cancelable minimum operating lease rentals are payable including option periods which are reasonably certain are as follows:

|                            | New Israeli<br>shekels<br>December 31,<br>2009<br>In millions |
|----------------------------|---|
| Less than one year         | 220   |
| Between one and five years | 646   |
| More than five years       | 462   |
|                            | 1,328   |

- 6) The rental expenses for the years ended December 31, 2009 and 2008 were approximately NIS 247 million, and NIS 233 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued):

c. Lawsuits and litigations:

In the ordinary course of business, the Company is involved in a number of lawsuits. The costs that may result from these lawsuits are only accrued for when it is probable that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings that may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of legal counsel and on the Company's estimate of the probable settlement amount that is expected to be incurred, if such a settlement will be agreed by both parties.

The most material litigation and claims that are described below:

- 1) On April 13, 2003, a claim was filed against the Company and other cellular telecommunication companies, together with a request to recognize 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, if the claim is recognized as a class action, is estimated at approximately NIS 120 million (if the court rules that no fee should have been collected) or alternatively NIS 90 million (if the court rules that the fees are excessive). The claim is still in the preliminary stage of the motion to certify it as a class action.
- 2) On August 8, 2006, a claim was filed against the Company and other cellular telecommunication companies together with a request to recognize this claim as a class action for collecting undue payment from its customers on calls to land line companies when the receiver of the call hangs up first. The amount of the claims against all the defendants, if the claim is recognized as a class action, is estimated at approximately NIS 100 million for the seven year period leading up to the filing of the claim. The claim is still in the preliminary stage of the motion to certify it as a class action.
- 3) On February 27, 2007, a claim was filed against the Company and two other cellular telecommunication companies together with a request to recognize this claim as a class action. The claim is for sums that were allegedly overcharged in breach of the Company's licenses, based on intervals larger than the intervals the defendants were allegedly authorized to charge under their licenses, for calls initiated or received by the subscribers while abroad. If the claim is recognized as a class action, the total amount claimed from the defendants is estimated by the plaintiffs to be approximately NIS 449 million, of which, approximately NIS 88 million is attributed to the Company.

On August 20, 2009, the claim was dismissed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued):

4) On August 9, 2007, a claim was filed against the Company, together with a request to recognize this claim as a class action. The claim is that the Company discontinues providing services to prepaid subscribers that have not used their number for a period of thirteen months and transferred the number to other subscribers. The claimants allege that this violates the terms of the Company's license as well as the requirements against deception and the disclosure requirements in the Consumer Protection Law.

If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 161.7 million. The claim is still in the preliminary stage of the motion to certify it as a class action.

5) On December 16, 2007 a claim and a motion to certify the claim as a class action was filed against the Company and two other cellular communications companies.

The plaintiffs allege that cell sites were illegally erected near their properties, causing environmental damage. They seek various remedies, including removal of all alleged illegal devices, and if the claim is recognized as a class action a sum of NIS 1 billion (1,000 NIS per person times 1 million people allegedly effected) that would be given to a fund managed by environment and cellular specialists. The claim is still in the preliminary stage of the motion to certify it as a class action.

6) On November 29, 2007 a petition was filed in the Supreme Court against the Minister of Communications, the Legal Counsel of the Israeli Ministry of Communications and the Chief Executive Officer in the Ministry of Communications, and also against the Company (as well as two other cellular communications companies) as formal respondents.

The petition deals with the decision of the Minister of Communications according to which cellular companies are not allowed to market programs that include limitation to 1 minute minimum (programs that charge the subscriber for the whole first minute even if he used only a part of it).

The petitioner's motion is to implement the above mentioned decision retroactively and alternatively to instruct the cellular companies to forfeit the fines they collect from customers who wish to leave these programs.

On January 25, 2010 the petition was dismissed.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued):

7) On March 23, 2008, a claim and a motion to certify the claim as a class action were filed against the Company. The claim is that the Company overcharges subscribers for calls and that the subscribers' bill includes incorrect and unclear information.

The total amount to be claimed under the class action is not estimated by the plaintiff.

On January 11, 2010, the claim was dismissed.

8) On June 26, 2008, a claim and a motion to certify the claim as a class action were filed against the Company. The claim is that the Company is charging consumers for providing special numbers, allegedly in breach of the Company's license. If the claim is recognized as a class action, the total amount claimed from the defendants, is estimated by the plaintiffs to be approximately NIS 90 million. During a preliminary hearing that took place on June 22, 2009, the court asked the plaintiff to consider the continuation of his legal procedure. On September 6, 2009, the court set up dates for the filing of summations by the parties.

On January 7, 2010, the claim was dismissed. On February 10, 2010, the plaintiff submitted an appeal to the Supreme Court in Jerusalem.

9) On January 19, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company misled its customers who purchased a particular model of handset by not highlighting the fact that there were faults with certain of that model's functions and not offering replacement models free of additional obligation. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 70 million. The claim is still in the preliminary stage of the motion to certify it as a class action.

10) On March 18, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company should not have charged its subscribers for various different services under certain circumstances. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 1,250 million.

On August 17, 2009 the claim was dismissed.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued):

11) On April 22, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company charges certain subscribers for certain calls not according to their rate plan. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 187 million. The claim is still in the preliminary stage of the motion to certify it as a class action.

12) On August 17, 2009, a claim and a motion to certify the claim as a class action were filed against the Company, another cellular operator and two content providers and integrators. The claim alleges that the Company charged subscribers for certain content services, without their consent. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiff to be approximately NIS 228 million. The claim is still in the preliminary stage of the motion to certify it as a class action.

13) On August 24, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company misled its subscribers by wrongfully not disclosing material terms of sale in a certain marketing campaign that it carried out. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 982 million.

On January 17, 2009 the claim was dismissed.

14) On November 17, 2009, a claim and a motion to certify the claim as a class action were filed against the Company, two other cellular communications companies and the Minister of Communications. The claim alleges that the cellular operators discriminate against the non-religious subscribers by not offering them certain tariffs and terms that are offered to the religious sector. If the claim is recognized as a class action, the total amount claimed from the defendants is estimated by the plaintiffs to be approximately NIS 900 million (for all defendants together). The claim is still in the preliminary stage of the motion to certify it as a class action.

On February 11, 2010, the claim was dismissed.

15) Additional 10 claims were filed against the Company, together with a request to recognize these claims as class actions. The total amount of the claims against the Company, if the claims are recognized as a class action, is estimated at approximately NIS 315 million. One of the claims in the amount of NIS 28 million was recognized as a class action.

16) On May 20, 2008, the Ministry of Communications (MOC) informed the Company that following an audit of the MOC by the State Comptroller they are reconsidering the Company's continued use of one of the frequency bands which the Company is using on a shared basis with another operator and claiming payment for its past use (which according to the MOC's claim is approximately NIS 42.5 million).

On February 2010 an agreement with the MOC was reached, according to which the allocation of the frequency bands was completed, and the sum that the Company is required to pay for the use of the frequency band was agreed. Accordingly, the Company recognized a provision of NIS 31 million as of December 31, 2009 in respect of the above issue.



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued):

17) Section 197 of the Building and Planning Law states that a property owner has the right to be compensated by a local planning committee for reductions in property value as a result of a new building plan.

In January 2006, the Non-ionizing Radiation Law was published, amending the Planning and Building Law so that local Planning and Building committees must require indemnification letters against reduction in property value from the cellular operators requesting building permits.

Accordingly, on January 3, 2006, the National Council for Planning and Building published an interim decision conditioning the issuance of building permits for cell site permits by local planning and building councils upon provision of a 100% indemnification undertaking by the cellular operators. This decision shall remain in effect until it is replaced with an amendment to the National Zoning Plan 36.

Between January 3, 2006 and December 31, 2009 the Company provided the local authorities with 348 indemnification letters as a pre-condition for obtaining building permits.

If the Company shall be required to make substantial payments under the indemnity letters, it could have an adverse effect on the Company's financial results.

The Company assumes that the requirement to provide indemnification letters might require it to change locations of sites to different, less suitable locations and to dismantle some of their sites. These changes in the deployment of the sites might have an adverse effect on the extent, quality and capacity of the network coverage.

18) In addition to all the above mentioned claims the Company is a party to various claims arising in the ordinary course of its operations.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 18 – SHAREHOLDER'S EQUITY AND SHARE BASED PAYMENTS:

a. Share capital:

The Company's shares are traded in the form of American Depository Receipts ("ADRs"), each representing one ordinary share, on the NASDAQ Global Market, and on the Tel-Aviv stock exchange (TASE) according to the dual listing regulations.

Under the provisions of the license granted to the Company (note 1a(2)), restrictions are placed on transfer of Company shares and placing liens thereon. The restrictions include the requirement that the advance written consent of the Minister of Communications be received prior to transfer of 10% or more of the Company's shares to a third party.

On February 6, 2008, the Company's Board of Directors approved a share buyback of up to NIS 600 million in 2008. Through December 31, 2008 the Company purchased 4,467,990 shares at the cost of NIS 351 million. In view of the significant market turbulence, the Board of Directors subsequently suspended the share buy-back plan.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares as long as they are held by the Company, and as such they do not bear any rights until they are transferred to a third party.

The holders of ordinary shares are entitled to receive dividends as declared.

See also note 18 c. in respect of dividends.

b. Share based compensation to employees – share options:

1) In October 2000, the Company's Board of Directors approved an employee stock option plan (hereafter - the "2000 a. Plan"), pursuant to which 4,472,222 ordinary shares were reserved for issuance upon the exercise of 4,472,222 options to be granted to employees without consideration. The options vest in four equal annual batches over a period of four years from the date of grant of the option, provided the employee is still in the Company's employ. The option holder may exercise all or part of his options at any time after the date of vesting but no later than the expiration of the exercise period, which will be fixed by the Employee Stock Option Committee and will not exceed ten years from the date of option grant.

The NIS denominated exercise price per share of the options, is equal to the market price of the Company's shares on the date on which the options are granted.

During November 2003, 419,930 options of this plan were transferred to options under the 2003 amendment Plan (see c below).

Through December 31, 2009 - 5,317,555 options were granted pursuant to the 2000 Plan, of which 3,774,722 options have been exercised, 1,395,333 options were forfeited and 111,000 expired (options forfeited and expired were available for subsequent grants).



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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 18 - SHAREHOLDER'S EQUITY AND SHARE BASED PAYMENTS (continued):

b. On November 13, 2003, the Company's Board of Directors approved an amendment to the terms and provision of the 2000 Plan, in order to adjust the terms of the 2000 Plan to comply with new tax legislation that came into force in January 2003. On December 2003, the Company offered the employees, who received options under the 2000 plan, to exchange their unvested options, with the same amount of identical options, under the amended plan and to benefit from the capital gain's tax route pursuant to Section 102(b)(2) of the Israeli Income Tax Ordinance. Employees holding options to purchase 962,104 ordinary shares accepted this offer.

On December 30, 2003, the Company's Board of Directors approved the grant of 195,000 options (out of the 419,930 options that were transferred from the 2000 Plan) under the 2003 amended Plan with an exercise price of NIS 20.45 - which was less than the market price on the date of grant. Through December 31, 2007 all 195,000 options that were granted have been exercised.

The options vest in four equal annual batches over a period of four years from the date of grant of the option, provided the employee is still in the Company's employ.

On 26 March 2008, the Board of Directors of the Company approved the termination of the 1998 Plan, the 2000 Plan and 2003 Amended Plan. Since then, no further share options were granted under these three plans, and all outstanding share options thereunder will remain valid and bear all terms and conditions of the relevant option plans.

c. In July 2004, the Company's Board of Directors approved a stock option plan (hereafter - the "2004 Plan"), pursuant to which 5,775,000 ordinary shares were reserved for issuance upon the exercise of 5,775,000 options to be granted without consideration. The options vest in four equal annual batches, provided the employee is still in the Company's employ. The option holder may exercise all or part of his options at any time after the date of vesting but no later than the expiration of the exercise period, which will fixed by the Employee Stock Option Committee and will not exceed ten years from the date of option grant.

For grants made after December 31, 2008 the NIS denominated exercise price per share of the options, is equal to the average market price of the Company's shares for the 30 trading days preceding the day on which the options are granted.

On March 26, 2008, the 2004 Share Option Plan was amended by the Board of Directors to include the following material amendments for new grants: to increase the total number of the Company's shares reserved for issuance upon exercise of all options granted under the 2004 Share Option Plan by 8,142,000 shares; to introduce the acceleration of option vesting and exercisability in the event of a change of control or voluntary winding up; and to allow, upon compliance with certain conditions, the "cashless" exercise of vested options, according to which, upon exercise by the option holder of a given number of options, but without payment of the exercise price, the option holder would receive from the Company only the number of shares whose aggregate market value equals the economic gain which the option holder would have realized by selling all the shares purchased at their market price, net of the option exercise price.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 18 - SHAREHOLDER'S EQUITY AND SHARE BASED PAYMENTS (continued):

d. On February 23, 2009, the 2004 Share Option Plan, was further amended by the Board of Directors (the "Plan Amendments") to include the following two material amendments: (i) with respect to options granted on or after February 23, 2009, the date of approval of the Plan Amendments by the Board of Directors (the "Board Approval"), a dividend-adjustment mechanism, reducing the exercise price of such options following each dividend distribution in the ordinary course in an amount in excess of 40% (forty percent) or of another percent resolved by the Board of Directors, of the Company's net income for the relevant period ("the Excess Dividend") by an amount equal to the gross amount of the Excess Dividend per Ordinary Share. (ii) with respect to all options granted under the 2004 Share Option Plan, a dividend adjustment mechanism reducing the exercise price of such options following each dividend distribution other than in the ordinary course, by an amount which the Board of Directors considers as reflecting the impact such distribution will have or will likely to have on the trading price of the Ordinary Shares, and provisions authorizing the Board of Directors to allow option holders to exercise their vested options during a fixed period, through a cashless exercise procedure, pursuant to which each vested option will entitle its holder to the right to purchase Ordinary Shares (subject to the adjustments). The Plan Amendments were approved by the Company's shareholders.

The amendment of the 2004 plan on February 2009 did not have an effect on the Company's financial results regarding the grants made before that date.

Through December 31, 2009 – 11,312,500 options have been granted to Company's employees pursuant to the 2004 Plan, of which 4,459,041 options have been exercised, 1,569,389 options were forfeited and 4,625 options expired (options forfeited and expired are available for subsequent grants).

As of December 31, 2009 - 4,178,514 of the 2004 Plan remain ungranted.

The ordinary shares derived from the exercise of the options confer the same rights as the other ordinary shares of the Company.

On February 9, 2010 the Company's Board of Directors approved the cashless exercise procedure according to which, option holders who were granted options on or after February 23, 2009 would be allowed to exercise their options only through a cashless exercise procedure and those granted options before February 23, 2009 would be able to choose between the cashless exercise procedure and the regular option exercise procedure.

On December 27, 2009, following a resolution to distribute a special dividend in the amount of NIS 1.4 billion (as a result of a capital reduction), the Board of Directors approved a reduction to the exercise price in an amount equivalent to 50% of the special dividend per share.

e. The plans are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company will be allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plans, as follows:

Through December 31, 2003, the amount that the Company will be allowed to claim as an expense for tax purposes will be the amount of the benefit taxable in the hands of the employee. From January 1, 2004, the amount that the Company will be allowed to claim as an expense for tax purposes, will be the amount of the benefit taxable as work

income in the hands of the employee, while that part of the benefit that is taxable as capital gains in the hands of the employee shall not be allowable.

The aforementioned expense for tax purposes will be recognized in the tax year that the employee is taxed, except as described below.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 18 - SHAREHOLDER'S EQUITY AND SHARE BASED PAYMENTS (continued):

In December 2002, the Company signed an agreement with the tax authorities concerning the tax liabilities of its employees regarding the benefit arising from the options granted to them and were exercised by December 31, 2002; and/or (2) options that vest by December 31, 2003 and were exercised by March 31, 2004. According to the agreement, the individual tax rate on the taxable income received by the employees in connection with the benefit arising from the options will be reduced; in return, the Company will defer the deduction of such an expense, for a period of 4 years from the date it commences paying income taxes.

The Company claimed these expenses during 2009 for tax purposes.

2) Following is a summary of the status of the plans as of December 31, 2008 and 2009 and the changes therein during the years ended on those dates:

|  | Year ended December 31 |                                     | Year ended December 31 |                                     |
|--|------------------------|-------------------------------------|------------------------|-------------------------------------|
|  | 2008                   | Weighted average exercise price NIS | 2009                   | Weighted average exercise price NIS |
|  | Number                 |                                     | Number                 |                                     |
| Balance outstanding at beginning of year | 2,863,818              | 36.06                               | 2,231,187              | 39.21                               |
| Changes during the year:                 |                        |                                     |                        |                                     |
| Granted                                  | 76,000                 | 66.05                               | 4,185,500              | *60.42                              |
| Exercised                                | (566,614 )             | 29.38                               | (1,020,742)            | 37.28                               |
| Forfeited                                | (142,014 )             | 29.62                               | (71,250 )              | 29.1                                |
| Expired                                  | (3 )                   | 1.27                                | (8,750 )               | 27.35                               |
| Balance outstanding at end of year       | 2,231,187              | 39.21                               | 5,315,945              | 56.47                               |
| Balance exercisable at end of year       | 1,031,312              | 33.64                               | 928,945                | 45.25                               |

\* After taking into account the dividend benefit.

The weighted average fair value of options granted using the Black & Scholes option-pricing model during 2008 and 2009 is NIS 14.46 and NIS 8.94 per option, respectively. The fair value of each option granted is estimated on the date of grant based on the following weighted average assumptions: weighted average dividend yield of 2008 6.21% and 2009 4.42%; expected volatility of 24% and 27%, respectively; risk-free interest rate: 2008 - 4.3%, 2009 - 2.9%; weighted average expected life: 2008-3 years, 2009 - 4 years. The expected volatility is based on a historical volatility, by statistical analysis of the daily share price for periods corresponding the option's expected life. The expected life is expected length of time until expected date of exercising the options, based on historical data on employees' exercise behavior and anticipated future condition.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 18 - SHAREHOLDER'S EQUITY AND SHARE BASED PAYMENTS (continued):

Share options outstanding as of December 31, 2009 have the following expiry date and exercise prices:

| Expire in | Number of options | Weighted average exercise price in NIS |
|-----------|-------------------|--|
| 2010      | 17,750            | 17.49                                  |
| 2011      | 18,750            | 21.72                                  |
| 2014      | 294,600           | 26.74                                  |
| 2015      | 29,325            | 30.73                                  |
| 2016      | 170,500           | 33.12                                  |
| 2017      | 635,250           | 53.08                                  |
| 2018      | 68,770            | 66.05                                  |
| 2019      | 4,081,000         | 60.47                                  |

Share options outstanding as of December 31, 2008 have the following expiry date and exercise prices:

| Expire in | Number of options | Weighted average exercise price in NIS |
|-----------|-------------------|--|
| 2009      | 115,300           | 27.29                                  |
| 2010      | 20,250            | 17.46                                  |
| 2011      | 21,250            | 21.72                                  |
| 2014      | 636,779           | 26.74                                  |
| 2015      | 191,901           | 33.13                                  |
| 2016      | 353,707           | 33.14                                  |
| 2017      | 816,000           | 53.19                                  |
| 2018      | 76,000            | 66.05                                  |

c.

## Dividends

|   | For the year ended December 31, |                         |                          |                         |
|---|---------------------------------|-------------------------|--------------------------|-------------------------|
|   | Per share in NIS                | 2008<br>NIS in millions | 2009<br>Per share in NIS | 2009<br>NIS in millions |
| Cash dividends declared during the year               | 6.06                            | 942                     | 6.38                     | 982                     |
| Tax withheld  |                                 | (18 )                   |                          | (14 )                   |
| Previously withheld tax - paid during the year        |                                 | 6                       |                          | 18                      |
| Net Cash flow in respect of dividends during the year |                                 | 930                     |                          | 986                     |



## PARTNER COMMUNICATIONS COMPANY LTD.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 18 - SHAREHOLDER'S EQUITY AND SHARE BASED PAYMENTS (continued):

Dividends declared for the reported periods are as follows:

|                | Dividends Declared<br>for the periods of the year |                    |                     |                    |
|----------------|---|--------------------|---------------------|--------------------|
|                | 2008  |                    |                     | 2009               |
|                | Per share<br>in NIS                               | NIS in<br>millions | Per share<br>in NIS | NIS in<br>millions |
| First quarter  | 1.24  | 194                | 1.54                | 237                |
| Second quarter | 1.26  | 194                | 1.49                | 230                |
| Third quarter  | 1.54  | 236                | 1.94                | 299                |
| Forth quarter  | 1.41  | 216                | 1.89                | 293                |
|                | 5.45  | 840                | 6.86                | 1,059              |

On December 28, 2009 the Company announced that its Board of Directors' resolved to distribute a dividend of NIS 1.4 billion to the Company's shareholders. The Company submitted an application to the District Court to approve the dividend distribution ("Distribution Application"). On February 22, 2010 the Company announced that the District Court approved the Distribution Application in the total amount of NIS 1.4 billion (exceeding the surpluses for distribution) to the Company's shareholders. Following the District Court's approval, the dividend in the total amount of NIS 1.4 billion which is NIS 9.04 per share is expected to be paid on March 18, 2010 to shareholders and ADS holders of record on March 7, 2010. The distribution will result in a reduction of equity by an equal amount and be financed by debt See also note 14 in respect settlement reached with notes payable series A holders.

On March 16, 2010, the Company's Board of Directors resolved and recommended the distribution of a cash dividend (with respect to the fourth quarter of 2009) in the amount of NIS 1.89 per share (approximately NIS 293 million) to shareholders of record on April 7, 2010, to be paid on April 22, 2010.

The Company intends to pay any dividends in shekels. Under current Israeli regulations, any dividends or other distributions paid in respect of ordinary shares may be freely repatriated in non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on or withheld from such dividends. Because exchange rates between the shekel and the US dollar fluctuate continuously, a holder of ADSs will be subject to currency fluctuation generally and, particularly, between the date when dividends are declared and the date dividends are paid..

The Company's dividend policy for 2009 provided for an 80% dividend payout ratio of 80% of the annual net income, the same as with respect to the year 2008. For the year 2009, the Company distributed dividends and declared a final dividend on March 16, 2010 (with respect to the fourth quarter of 2009), which in the aggregate represent a payout ratio of approximately 93% of the Company's annual net income for the year.

See note 13(f) regarding financial covenants.



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 19 – EXPENSES

## a. Cost of revenues

|   | New Israeli shekels<br>Year ended December 31,<br>2008                      2009<br>In millions |              |
|---|---|--------------|
| Payments to transmission, communication and content providers | 1,306   | 1,238        |
| Cost of revenues - equipment                                  | 843   | 564          |
| Wages and employee benefits expenses plus car maintenance     | 471   | 557          |
| Depreciation and amortization                                 | 432   | 558          |
| Costs of replacing or repairing damaged handsets              | 213   | 212          |
| Operating lease, rent and overhead expenses                   | 279   | 293          |
| Network maintenance   | 135   | 147          |
| Carkit installation, IT support, and other operating expenses | 89  | 93           |
| Royalties expenses  | 68  | 65           |
| Other   | 32  | 43           |
| <b>Total Cost of revenues</b>                                 | <b>3,868</b>  | <b>3,770</b> |

## b. Selling and marketing expenses

|   | New Israeli shekels<br>Year ended December 31,<br>2008                      2009<br>In millions |            |
|---|---|------------|
| Wages and employee benefits expenses plus car maintenance | 170   | 184        |
| Advertising and marketing                                 | 103   | 118        |
| Selling commissions, net                                  | 32  | 8          |
| Depreciation  | 12  | 7          |
| Other   | 71  | 70         |
| <b>Total selling and marketing expenses</b>               | <b>388</b>  | <b>387</b> |

## c. General and administrative expenses

|   | New Israeli shekels<br>Year ended December 31,<br>2008                      2009<br>In millions |    |
|---|---|----|
| Allowance for doubtful accounts                           | 96  | 78 |
| Wages and employee benefits expenses plus car maintenance | 66  | 87 |
| Professional fees   | 33  | 40 |
| Credit card commissions                                   | 29  | 32 |
| Depreciation  | 19  | 12 |

|   |     |     |
|---|-----|-----|
| Other                                     | 41  | 41  |
| Total general and administrative expenses | 284 | 290 |

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 19 – EXPENSES (continued):

| d.  | Employee benefit expense        |      |
|---|---------------------------------|------|
|   | New Israeli shekels             |      |
|   | Year ended December 31,<br>2008 | 2009 |
|   | In millions                     |      |
| Wages and salaries, including social benefits; social security costs and pension cost: defined contribution plans and defined benefit plans | 642                             | 745  |
| Expenses in respect of share options that were granted to employees   | 9                               | 22   |
|   | 651                             | 767  |

## NOTE 20 – OTHER INCOME, NET

|  | New Israeli shekels             |      |
|--|---------------------------------|------|
|  | Year ended December 31,<br>2008 | 2009 |
|  | In millions                     |      |
| Unwinding of trade receivables                   | 65                              | 60   |
| Other income                                     | -                               | 12   |
| Capital loss from sale of property and equipment | (1 )                            | (3 ) |
| Net other income                                 | 64                              | 69   |

## NOTE 21 – FINANCE COSTS, NET

|   | New Israeli shekels             |      |
|---|---------------------------------|------|
|   | Year ended December 31,<br>2008 | 2009 |
|   | In millions                     |      |
| Fair value gain from derivative financial instruments, net                  | 11                              | 18   |
| Net foreign exchange gains  | 10                              | -    |
| Interest income from cash equivalents                                       | 4                               | 1    |
| Expected return on plan assets  | 3                               | 6    |
| Other   | 2                               | 3    |
| Finance income  | 30                              | 28   |
| Interest expenses   | 94                              | 86   |
| Linkage expenses to CPI   | 102                             | 88   |
| Interest costs in respect of liability for employees rights upon retirement | 7                               | 9    |
| Net foreign exchange rate costs   | -                               | 9    |
| Factoring costs, net  | 11                              | 4    |

|                     |     |     |
|---------------------|-----|-----|
| Other finance costs | -   | 8   |
| Finance expense     | 214 | 204 |
| Finance costs, net  | 184 | 176 |

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 22 – INCOME TAX EXPENSES:

a. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985

Under this law, results for tax purposes through tax-year 2007, are measured in real terms, having regard to the changes in the Israeli CPI. The Company and its subsidiary are taxed under this law.

On March 6, 2008, Amendment number 20 to this law was published, according to which the provisions of the Inflationary Adjustments Law will no longer apply to the Company in 2008 and thereafter, and therefore the Company and its subsidiary are measured for tax purposes from tax-year 2008 in nominal values.

b. Tax rates applicable to income of the Company and its subsidiary

The income of the Company and its Israeli subsidiary is taxed at the regular rate. Through December 31, 2003, the corporate tax was 36%. In July 2004, Amendment No. 140 to the Income Tax Ordinance was enacted. One of the provisions of this amendment is that the corporate tax rate is to be gradually reduced from 36% to 30%. In August 2005, a further amendment (No. 147) was published, which makes a further revision to the corporate tax rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the corporate tax rates for are as follows: 2008 - 27%, 2009 - 26% and for 2010 and thereafter - 25%.

On July 23, 2009, The Law of Economic Efficiency (legislation amendments for implementation of the economic plan for the years 2009 and 2010) was enacted. One of the provisions of this law is that the corporate tax rate is to be gradually further reduced from 26% in 2009 and 25% in 2010 to 18% as follows: 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015, and for 2016 and thereafter – 18%.

As a result of the aforementioned change in the future corporate tax rate, the deferred tax assets as of September 30, 2009 have increased in the amount of approximately NIS 18 million, with corresponding decrease in deferred tax expenses.

c. Losses carried forward to future years

At December 31, 2009, a subsidiary of the Company had carryforward tax losses of approximately NIS 15 million. The carryforward tax losses can be utilized indefinitely. The Company did not recognize deferred tax assets in respect thereof.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 22 - INCOME TAX EXPENSES (continued):

## d. Deferred income taxes

Balances of deferred tax asset (liability) are attributable to the following items:

| Balance of deferred tax asset (liability) in respect of | As at January 1, 2008 | Charged to the income statement | Charged to other comprehensive income | As at December 31, 2008 | Charged to the income statement | Effect of change in corporate tax rate | Charged to other comprehensive income | As at December 31, 2009 |
|---|-----------------------|---------------------------------|---------------------------------------|-------------------------|---------------------------------|--|---------------------------------------|-------------------------|
| New Israeli shekels In millions                         |                       |                                 |                                       |                         |                                 |  |                                       |                         |
| Allowance for doubtful accounts                         | 43                    | 23                              |                                       | 66                      | (3 )                            | (2 )                                   |                                       | 61                      |
| Provisions for employee rights                          | 14                    | 1                               | 5                                     | 20                      | (1 )                            | (1 )                                   | (4 )                                  | 14                      |
| Subscriber acquisition costs                            | 42                    | (1 )                            |                                       | 41                      | (30 )                           | (1 )                                   |                                       | 10                      |
| Depreciable fixed assets                                | (46 )                 | (44 )                           |                                       | (90 )                   | (35 )                           | 26                                     |                                       | (99 )                   |
| Amortized license and other intangibles                 | 11                    |                                 |                                       | 11                      | 8                               | (4 )                                   |                                       | 15                      |
| Options granted to employees                            | 22                    |                                 |                                       | 22                      | (18 )                           |  |                                       | 4                       |
| Financial instruments                                   |                       | 9                               |                                       | 9                       | (5 )                            |  |                                       | 4                       |
| Other   | (1 )                  | 3                               |                                       | 2                       | 3                               |  |                                       | 5                       |
| <b>Total</b>  | <b>85</b>             | <b>(9 )</b>                     | <b>5</b>                              | <b>81</b>               | <b>(81 )</b>                    | <b>18</b>                              | <b>(4 )</b>                           | <b>14</b>               |

New Israeli shekels  
December 31,  
2008                      2009  
In millions

|  |           |           |
|--|-----------|-----------|
| <b>Deferred tax assets</b>   |           |           |
| Deferred tax assets to be recovered after more than 12 months      | 76        | 57        |
| Deferred tax assets to be recovered within 12 months               | 95        | 56        |
|  | 171       | 113       |
| <b>Deferred tax liabilities</b>                                    |           |           |
| Deferred tax liabilities to be recovered after more than 12 months | 90        | 99        |
| Deferred tax liabilities to be recovered within 12 months          | -         | -         |
|  | 90        | 99        |
| <b>Deferred tax assets (net)</b>                                   | <b>81</b> | <b>14</b> |



PARTNER COMMUNICATIONS COMPANY LTD.  
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 22 - INCOME TAX EXPENSES (continued):

e. Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see b. above), and the actual tax expense:

|  | New Israeli shekels            |       |
|--|--------------------------------|-------|
|  | Year ended December 31<br>2008 | 2009  |
|  | In millions                    |       |
| Profit before taxes on income,<br>as reported in the income statements | 1,642                          | 1,525 |
| Theoretical tax expense  | 443                            | 396   |
| Increase (decrease) in tax resulting from<br>disallowable deductions:  |                                |       |
| In respect of previous years   | 2                              |       |
| For the current year   | 5                              | 3     |
| Change in corporate tax rate, see b above                              |                                | (18 ) |
| Change in the estimated utilization period of<br>the tax assets        | (4 )                           |       |
| Other  | (2 )                           | 3     |
| Income tax expenses  | 444                            | 384   |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 22 - INCOME TAX EXPENSES (continued):

f. Taxes on income included in the income statements:

1) As follows:

|  | New Israeli shekels    |       |
|--|------------------------|-------|
|  | Year ended December 31 |       |
|  | 2008                   | 2009  |
|  | In millions            |       |
| For the reported year:                                   |                        |       |
| Current  | 423                    | 321   |
| Deferred, see d above                                    | 20                     | 76    |
| Effect of change in corporate tax rate on deferred taxes |                        | (18 ) |
| In respect of previous year:                             |                        |       |
| Current  | 12                     | -     |
| Deferred, see d above                                    | (11 )                  | 5     |
|  | 444                    | 384   |

g. Tax assessments:

- 1) The Company has received final corporate tax assessments through the year ended December 31, 2006.
- 2) Tax returns filed by the subsidiary through the year ended December 31, 2004 are considered to be final.
- 3) All income before taxes and income tax expenses for all of the reporting periods are local in Israel.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

## a. Transactions with Hutchison group

During 2009 the Company entered into various agreements with Hutchison Telecom in the ordinary course of business for the purchase of certain products or services or obtaining licenses. Each such related party agreement was subject to review by the Audit Committee pursuant to normal Company procedure. In each case the Audit Committee concluded that the agreements were on market terms and would not have a substantial effect on the Company's results of operations or obligations.

Based on information provided to the Company by Hutchison Telecom, Hutchison Telecom granted a one-time cash payment to selected employees of the Company, shortly following Hutchison Telecom's sale of its controlling interest, in recognition of the contribution made by such employees to the value of the Company. According to Hutchison Telecom, the aggregate value of such one-time payment to the Company's executive officers was NIS 18.4 million.

| Transactions with Hutchison group                   | New Israeli shekels                |   |
|---|------------------------------------|---|
|   | Year ended<br>December<br>31, 2008 | Period from<br>January 1,<br>2009 to<br>October 28,<br>2009 (*) |
|   | In millions                        |   |
| Acquisition of handsets from related parties        | 9                                  | 11  |
| Selling commissions, maintenance and other expenses | 4                                  | 5   |

(\*) During the period from January 1, 2009 to October 28, 2009, expenses of NIS 0.4 million, NIS 15.6 million were made to Hutchison Telecommunications Cayman and Hutchison Telephone Company, respectively.

The transactions are carried out in the ordinary course of business. Management believes that such transactions were carried out under normal market conditions.

As of October 28, 2009, upon Scailex becoming our principal shareholder, Hutchison Telecom and its affiliates were no longer related parties with Partner.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued):

## b. Transactions with Scailex group

As of October 28, 2009, upon Scailex becoming the Company's principal shareholder, Hutchison Telecom and its affiliates were no longer related parties with the Company.

On December 28, 2009, the Company's Audit Committee and Board of Directors approved the existing perennial agreement with Scailex, the Company's principal shareholder as of October 28, 2009. Under the agreement, the Company will purchase, from time to time, cellular handsets, accessories and spare parts which are manufactured by Samsung electronics Ltd. and imported into Israel by Scailex ("the Samsung Products"). The Company's Audit Committee and Board of Directors also approved additional commercial arrangements between Scailex and the Company related to the annual volumes of the Company's purchases of the Samsung Products and to Scailex's annual gross profit margin from these transactions with the Company compared to their gross profit margin from similar transactions with all their customers in Israel (together with the annual agreement, the "Samsung Products Agreement"). The total volume of the transactions between Scailex and the Company under the Samsung Products Agreement shall not exceed NIS 250 million, on an annual basis. However, in accordance with the Samsung Products Agreement, Scailex and the Company may increase the scope of annual purchases of Samsung Products by an additional amount of up to NIS 50 million, subject to the approval of the Audit Committee and Board of Directors of each of the companies.

Pursuant to the terms of the Samsung Products Agreement, the prices of the Samsung Products shall be determined by negotiations between Scailex and us; however, Scailex's total and accumulative annual gross profit margin from transactions with the Company regarding each group of products (purchase of handsets, accessories or spare parts) ("Annual Gross Profit Margin") shall not exceed Scailex's average gross profit margin from the same group of products with their customers in Israel during the same calendar year (the "Average Gross Profit Margin"). If the Annual Gross Profit Margin of any group of products, exceeds Scailex's Average Gross Profit Margin, from the same group of Products, by more than 10% of the Average Gross Profit Margin, Scailex shall credit the difference to us.

The Samsung Products Agreement shall become effective subject to the approval of the General Meeting of Shareholders of the Company. The term of the Samsung Products Agreement shall be for a period of three years commencing on October 28, 2009, the date Scailex became the Company's principal shareholder.

| Transactions with Scailex group              | New Israeli<br>shekels<br>Period from<br>October 28,<br>2009<br>to December 31,<br>2009<br>In millions |
|--|--|
| Service revenues                             | 0.9  |
| Acquisition of handsets from related parties | 14   |

The transactions are carried out in the ordinary course of business. Management believes that such transactions were carried out under normal market conditions.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued):

## c. Statement of financial position items with related parties:

|                                      |   |
|--------------------------------------|---|
|                                      | New Israeli<br>shekels<br>December 31,<br>2008<br>In millions<br>4  |
| Current liabilities: Hutchison group |   |
|                                      | New Israeli<br>shekels<br>December 31,<br>2009<br>In millions<br>34 |
| Current liabilities: Scailex group   |   |

## d. Key management compensation

Key management personnel are the senior management of the Company and the members of the Company's Board of Directors.

Key management personnel compensation (including directors) comprised:

|  | New Israeli shekels<br>Year ended December 31 |      |
|--|---|------|
|  | 2008  | 2009 |
|  | In millions                                   |      |
| Salaries and short-term employee benefits  | 29  | 28   |
| Long term employment benefits              | 4   | 5    |
| Employee share-based compensation expenses | 4   | 16   |
|  | 37  | 49   |

In order to encourage the Company's executive officers to remain with the Company following the sale by Hutchison Telecom of its controlling interest, the Company's Board of Directors, upon the recommendation and approval of its Audit and Compensation Committees, adopted a two-year retention plan on September 9, 2009. According to the terms of the plan, retention payments will be made to each of the Company's eligible executive officers at the first and second anniversaries of the date of adoption of the retention plan, provided the executive officer has not resigned for reasons other than for certain justified reasons, as specified in the retention plan. The amounts of the first and second potential retention payments are the same, and the maximum aggregate amount of all retention payments together is USD 6.5 million.

The Company undertook to pay Mr. Amikam Cohen, who retired from his functions as chief executive officer on January 1, 2007, and from the Company on April 1, 2007, as part of his special retirement compensation, a non-compete payment of USD 0.6 million, in five equal installments, each payment to be made at the end of a six-month period over two and a half years starting in November 2007.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued):

e. On December 27, 2009, the Company's Audit Committee and Board of Directors approved an extension of the Company's headquarters lease agreement with Mivnei Ta'asiya Ltd ("Mivnei Ta'asiya"). Mr. Ilan Ben Dov, who is the controlling shareholder of Scailex, the Company's principal shareholder, is also the controlling shareholder of Tau Tshuot Ltd ("Tau"), which holds 4.9% of the issued share capital of Mivnei Ta'asiya.

Under the extension, the lease period for all rented office space shall be consolidated and extended for seven years (until 31 December 2016). In consideration of the extension of the lease agreement, a discount of 5% has been granted on the rental fees. As a result, the lease fees for 2010 shall be NIS 24 million.

The Company shall have the right to extend the lease period by an additional three or five years. Should the Company choose to extend the lease by an additional five years, the lease fee shall be reduced by 2.5%. The Company also has the right to shorten the lease period regarding all or part of the leased properties and terminate the lease on December 31, 2014. See also note 17 b (1).

f. During 2009 we purchased a substantial portion of our Nokia handsets from Eurocom Communications Ltd. On November 19, 2009, Eurocom sold their shares in the Company to Suny Electronics Ltd. The Company believes that the purchase transactions of the handsets from Eurocom were done at arms length and on market terms. If need be, Nokia handsets can be purchased from both Israeli and international suppliers and thereby reduce the dependency on Eurocom. These purchase prices may be higher than the purchase prices from Eurocom. As part of the Hutchison group, the Company benefited from conditions and prices of Nokia handset purchases, that were agreed upon between Hutchison and Nokia. Since the Company was acquired by Scailex and is no longer part of the Hutchison group, the purchase conditions from Eurocom may be updated. Additional conditions and agreements between the Company and Eurocom are set from time to time.

PARTNER COMMUNICATIONS COMPANY LTD.  
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 24 – DILUTED EARNINGS PER SHARE

Following are data relating to the net income and the weighted average number of shares that were taken into account in computing the basic and diluted EPS:

|  | New Israeli shekels    |         |
|--|------------------------|---------|
|  | Year ended December 31 |         |
|  | 2008                   | 2009    |
| Profit used for the computation of basic and diluted EPS:                                  |                        |         |
| Profit (in millions)   | 1,198                  | 1,141   |
| Weighted average number of shares used in computation of basic EPS (in thousands)          | 155,350                | 153,809 |
| Add - net additional shares from assumed exercise of employee stock options (in thousands) | 1,170                  | 1,008   |
| Weighted average number of shares used in computation of diluted EPS (in thousands)        | 156,520                | 154,817 |



PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 –TRANSITION FROM US GAAP TO IFRS:

An explanation of how the transition from US GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Exemptions from full retrospective application elected by the Company:

(1) Fair value as deemed cost exemption

The Company has elected to measure property and equipment at fair value as at January 1, 2008. See A Below.

(2) Business combinations exemption

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2008 transition date.

The following adjustments relate to the effect of the transition to reporting under IFRS, as issued by the International Accounting Standards Board, as do the explanations with respect to these adjustments and with respect to the exemptions that the Company has elected to apply upon the transition to the IFRS. The adjustments are presented as follows:

- 1) Adjustments to the consolidated statements of financial position as of December 31, 2008 and January 1, 2008.
- 2) Adjustments to the consolidated statements of income for the year ended December 31, 2008.
- 3) Adjustments to certain equity items as of December 31, 2008, and January 1, 2008.
- 4) Explanations with respect to the above adjustments, together with a description of the exemptions adopted by the Company under IFRS 1 during the course of the transition to the IFRS.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

Consolidated statement of financial position:

|   | Note    | As of January 1, 2008        |                                     |              |
|---|---------|------------------------------|-------------------------------------|--------------|
|   |         | Reported<br>under<br>US GAAP | Effect of t<br>ransition to<br>IFRS | IFRS         |
|   |         | New Israeli shekels          |                                     | In millions  |
| <b>CURRENT ASSETS</b>                               |         |                              |                                     |              |
| Cash and cash equivalents                           |         | 148                          |                                     | 148          |
| Trade receivables                                   |         | 1,121                        |                                     | 1,121        |
| Other receivables                                   | E       | 73                           | (23 )                               | 50           |
| Inventories   |         | 133                          |                                     | 133          |
| Derivative financial instruments                    | E       |                              | 27                                  | 27           |
| Deferred income taxes                               | F       | 46                           | (46 )                               |              |
|   |         | 1,521                        | (42 )                               | 1,479        |
| <b>NON CURRENT ASSETS</b>                           |         |                              |                                     |              |
| Trade Receivables                                   |         | 446                          |                                     | 446          |
| Funds in respect of employee rights upon retirement | C       | 89                           | (89 )                               |              |
| Property and equipment                              | A, H    | 1,728                        | (38 )                               | 1,690        |
| Licenses and other intangible assets                | B, H, I | 1,154                        | 227                                 | 1,381        |
| Deferred income taxes                               | F       | 94                           | (9 )                                | 85           |
|   |         | 3,511                        | 91                                  | 3,602        |
| <b>TOTAL ASSETS</b>                                 |         | <b>5,032</b>                 | <b>49</b>                           | <b>5,081</b> |

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## PARTNER COMMUNICATIONS COMPANY LTD.

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

Consolidated statement of financial position:

|  | Note | As of January 1, 2008                               |                                    | IFRS<br>In millions |
|--|------|---|------------------------------------|---------------------|
|  |      | Reported<br>under<br>US GAAP<br>New Israeli shekels | Effect of<br>transition<br>to IFRS |                     |
| <b>CURRENT LIABILITIES</b>   |      |   |                                    |                     |
| Current maturities of notes payable and<br>of other liabilities and current borrowings |      | 28  |                                    | 28                  |
| Trade payables   |      | 750   |                                    | 750                 |
| Parent group - trade   |      | 3   |                                    | 3                   |
| Other payables   | E, G | 323   | (67 )                              | 256                 |
| Deferred revenue   |      | 53  |                                    | 53                  |
| Derivative financial instruments   | E    |   | 19                                 | 19                  |
| Current income tax liability   | G    |   | 48                                 | 48                  |
|  |      | 1,157   |                                    | 1,157               |
| <b>NON CURRENT LIABILITIES</b>   |      |   |                                    |                     |
| Notes payable  | I    | 2,073   | (17 )                              | 2,056               |
| Liability for employee rights upon retirement  | C    | 132   | (101 )                             | 31                  |
| Dismantling and restoring sites obligation   | D    |   | 19                                 | 19                  |
| Other liabilities  | D    | 14  | (11 )                              | 3                   |
|  |      | 2,219   | (110 )                             | 2,109               |
| <b>TOTAL LIABILITIES</b>   |      | <b>3,376</b>  | <b>(110 )</b>                      | <b>3,266</b>        |
| <b>EQUITY</b>  |      |   |                                    |                     |
| Share capital  |      | 2   |                                    | 2                   |
| Capital surplus  | B, J | 2,545   | (116 )                             | 2,429               |
| Accumulated deficit  |      | (891 )  | 275                                | (616 )              |
| Total Equity   |      | 1,656   | 159                                | 1,815               |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |      | <b>5,032</b>  | <b>49</b>                          | <b>5,081</b>        |

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

Consolidated statement of financial position:

|   | Note    | As of December 31, 2008                             |                                    | IFRS<br>In millions |
|---|---------|---|------------------------------------|---------------------|
|   |         | Reported<br>under<br>US GAAP<br>New Israeli shekels | Effect of<br>transition<br>to IFRS |                     |
| <b>CURRENT ASSETS</b>                               |         |   |                                    |                     |
| Cash and cash equivalents                           |         | 184   |                                    | 184                 |
| Trade receivables                                   |         | 1,103   |                                    | 1,103               |
| Other receivables                                   | E       | 60  | (27 )                              | 33                  |
| Inventories   |         | 125   |                                    | 125                 |
| Derivative financial instruments                    | E       |   | 27                                 | 27                  |
| Deferred income taxes                               | F       | 70  | (70 )                              |                     |
|   |         | 1,542   | (70 )                              | 1,472               |
| <b>NON CURRENT ASSETS</b>                           |         |   |                                    |                     |
| Trade Receivables                                   |         | 417   |                                    | 417                 |
| Funds in respect of employee rights upon retirement | C       | 82  | (82 )                              |                     |
| Property and equipment                              | A, D, H | 1,756   | 179                                | 1,935               |
| Licenses and other intangible assets                | B, H, I | 1,061   | 199                                | 1,260               |
| Deferred income taxes                               | F       | 110   | (29 )                              | 81                  |
|   |         | 3,426   | 267                                | 3,693               |
| <b>TOTAL ASSETS</b>                                 |         | <b>4,968</b>  | <b>197</b>                         | <b>5,165</b>        |

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

Consolidated statement of financial position:

|  | Note | As of December 31, 2008      |                                    |
|--|------|------------------------------|------------------------------------|
|  |      | Reported<br>under<br>US GAAP | Effect of<br>transition<br>to IFRS |
| New Israeli shekels in millions  |      |                              |                                    |
| <b>CURRENT LIABILITIES</b>   |      |                              |                                    |
| Current maturities of notes payable and<br>of other liabilities and current borrowings |      | 568                          | 568                                |
| Trade payables   |      | 819                          | 819                                |
| Parent group - trade   |      | 4                            | 4                                  |
| Other payables   | E, G | 295                          | (49 ) 246                          |
| Deferred revenue   |      | 48                           | 48                                 |
| Derivative financial instruments   | E    |                              | 7 ) 7                              |
| Current income tax liability   | G    |                              | 42 ) 42                            |
|  |      | 1,734                        | 1,734                              |
| <b>NON CURRENT LIABILITIES</b>   |      |                              |                                    |
| Notes payable  | I    | 1,625                        | (12 ) 1,613                        |
| Liability for employee rights upon retirement  | C    | 148                          | (95 ) 53                           |
| Dismantling and restoring sites obligation   | D    |                              | 23 ) 23                            |
| Other liabilities  | D    | 22                           | (12 ) 10                           |
|  |      | 1,795                        | (96 ) 1,699                        |
| <b>TOTAL LIABILITIES</b>   |      | <b>3,529</b>                 | <b>(96 ) 3,433</b>                 |
| <b>EQUITY</b>  |      |                              |                                    |
| Share capital  |      | 2                            | 2                                  |
| Capital surplus  | B, J | 2,570                        | (124 ) 2,446                       |
| Accumulated deficit  |      | (782 )                       | 417 ) (365 )                       |
| Treasury shares  |      | (351 )                       | (351 )                             |
| Total Equity   |      | 1,439                        | 293 ) 1,732                        |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |      | <b>4,968</b>                 | <b>197 ) 5,165</b>                 |

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

## Consolidated statement of income:

|                                     | Note             | Year ended December 31, 2008       |                                    |       |
|-------------------------------------|------------------|------------------------------------|------------------------------------|-------|
|                                     |                  | Reported<br>under<br>US GAAP       | Effect of<br>transition<br>to IFRS | IFRS  |
|                                     |                  | New Israeli shekels                |                                    |       |
|                                     |                  | In millions, except per share data |                                    |       |
| Revenues                            |                  | 6,302                              |                                    | 6,302 |
| Cost of revenues                    | A, B, C          | 4,052                              | (184 )                             | 3,868 |
| Gross Profit                        |                  | 2,250                              | 184                                | 2,434 |
| Selling and marketing expenses      | C                | 389                                | (1 )                               | 388   |
| General and administrative expenses | K, C             | 256                                | 28                                 | 284   |
| Other income                        | K                |                                    | 64                                 | 64    |
| Operating profit                    |                  | 1,605                              | 221                                | 1,826 |
| Finance income                      |                  |                                    | 30                                 | 30    |
| Finance expenses                    |                  |                                    | 214                                | 214   |
| Financing costs, net                | C, D, E, K       | 158                                | (158 )                             |       |
| Profit before income tax            |                  | 1,447                              | 195                                | 1,642 |
| Income tax expense                  | A, B, C,<br>D, E | 396                                | 48                                 | 444   |
| Profit for the year                 |                  | 1,051                              | 147                                | 1,198 |
| Earnings per share                  |                  |                                    |                                    |       |
| Basic                               |                  | 6.77                               | 0.94                               | 7.71  |
| Diluted                             |                  | 6.73                               | 0.92                               | 7.65  |

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

## Consolidated reconciliation of equity:

|  |      | New Israeli shekels In millions |                    |                        |                    |       |
|--|------|---------------------------------|--------------------|------------------------|--------------------|-------|
|  | Note | Share<br>capital                | Capital<br>surplus | Accumulated<br>deficit | Treasury<br>shares | Total |
| As of January 1, 2008                            |      |                                 |                    |                        |                    |       |
| Reported under US GAAP                           |      | 2                               | 2,545              | (891 )                 |                    | 1,656 |
| Effect of adjustments, net<br>of tax for:        |      |                                 |                    |                        |                    |       |
| Options to employees                             | J    |                                 | (251 )             | 251                    |                    |       |
| CPI adjustment - equity                          | B    |                                 | 135                | (135 )                 |                    |       |
| Property and equipment                           | A    |                                 |                    | 84                     |                    | 84    |
| CPI adjustment- licenses                         | B    |                                 |                    | 41                     |                    | 41    |
| Software adjustment                              | B    |                                 |                    | 32                     |                    | 32    |
| Liability for employee<br>rights upon retirement | C    |                                 |                    | 9                      |                    | 9     |
| Derivative financial<br>instruments              | E    |                                 |                    | (1 )                   |                    | (1 )  |
| Dismantling and restoring<br>sites obligation    | D    |                                 |                    | (6 )                   |                    | (6 )  |
| As of January 1, 2008 under IFRS                 |      | 2                               | 2,429              | (616 )                 |                    | 1,815 |
| As of December 31, 2008                          |      |                                 |                    |                        |                    |       |
| Reported under US GAAP                           |      | 2                               | 2,570              | (782 )                 | (351 )             | 1,439 |
| Effect of adjustments, net<br>of tax for:        |      |                                 |                    |                        |                    |       |
| Options to employees                             | J    |                                 | (259 )             | 259                    |                    |       |
| CPI adjustment - equity                          | B    |                                 | 135                | (135 )                 |                    |       |
| Property and equipment                           | A    |                                 |                    | 223                    |                    | 223   |
| CPI adjustment- licenses                         | B    |                                 |                    | 38                     |                    | 38    |
| Software adjustment                              | B    |                                 |                    | 30                     |                    | 30    |
| Liability for employee<br>rights upon retirement | C    |                                 |                    | 9                      |                    | 9     |
| Derivatives                                      | E    |                                 |                    | (1 )                   |                    | (1 )  |
| Dismantling and restoring<br>sites obligation    | D    |                                 |                    | (6 )                   |                    | (6 )  |
| As of December 31, 2008 under IFRS               |      | 2                               | 2,446              | (365 )                 | (351 )             | 1,732 |

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

## A. Property and equipment

At January 1, 2008, the transition date, the Company chose to state the property and equipment at their fair value and to determine that value as deemed cost, in accordance with the exemption of IFRS 1. As part of the deemed cost, the Company made an estimation of the remaining useful life of each significant component of property and equipment. Depreciation is calculated using the straight-line method for each individual significant component of an item of property and equipment. See also changes in property and equipment in respect of dismantling and restoring sites obligation in D below. The deemed cost evaluation included changing of the estimated useful lives of the property and equipment as follows:

|  | Before<br>evaluation | After<br>evaluation |
|--|----------------------|---------------------|
|  | years                |                     |
| Communications network:                                  |                      |                     |
| Physical layer and infrastructure                        | 5 – 10               | 10 – 25             |
| Other communication network                              | 5 – 10               | 3 – 15              |
| Computers, hardware and software for information systems | 3 – 7                | 3 – 10              |
| Office furniture and equipment                           | 7 – 15               | 7 – 10              |
| Optic fibers and related assets                          | 10 – 15              | 7 – 25              |

As a result, the property and equipment balance increased by NIS 114 million and NIS 299 million as at January 1, 2008 and December 31, 2008 respectively, while the deferred tax balance deriving from the differences in the measurement of the property and equipment for tax purposes decreased compared with the presentation of property and equipment for accounting purposes, by approximately NIS 30 million and NIS 76 million at January 1, 2008 and December 31, 2008 respectively. The accumulated deficit has decreased at December 31, 2008 by such net amount. As a result, the depreciation expenses for the year 2008 have decreased by NIS 188 million. As a result, the income tax expenses increased by NIS 46 million for the year ended December 31, 2008.

## B. Inflation Adjustment

The value of non-monetary assets and equity items that were measured on the basis of historical cost under US GAAP have been adjusted for changes in the general purchasing power of the Israeli currency – NIS, based upon changes in the Israeli Consumer Price Index ("CPI") until December 31, 2003; as until that date the Israeli economy was considered hyperinflationary according to IFRS, as a result:

1. Capital Surplus increased by NIS 135 million at January 1, 2008 and December 31, 2008.
2. License intangible asset increased by NIS 55 million and NIS 51 million at January 1, 2008 and December 31, 2008 respectively, while the deferred tax balance deriving from the differences in the measurement of the intangible asset for tax purposes decreased, by approximately NIS 14 million and NIS 13 million at January 1, 2008 and December 31, 2008, respectively. As a result, the cost of revenues increased for the year ended December 31, 2008 by NIS 4 million, and the income tax expense for the year ended December 31, 2008 decreased by NIS 1 million.



3. Software intangible asset increased by NIS 43 million and NIS 38 million at January 1, 2008 and December 31, 2008 respectively, while the deferred tax balance deriving from the differences in the measurement of the intangible asset for tax purposes decreased by approximately NIS 11 million and NIS 10 million at January 1, 2008 and December 31, 2008 respectively. As a result, the cost of revenues increased for the year ended December 31, 2008 by NIS 4 million, and the income tax expense for the year ended December 31, 2008 decreased by NIS 1 million.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

C. Liability for employee rights upon retirement, net

Under US GAAP, the liability for severance pay for employees rights upon retirement was measured by multiplying the years of employment by the last monthly salary of the employee (i.e. one monthly salary for each year of employment) at the end of each reporting period, and the amount funded for severance pay that has been accumulated for this liability is measured based on redemption values at the end of each reporting period. In addition, under US GAAP, amounts funded with severance pay funds were presented as long-term investments. Under IFRS, the liability for employee rights upon retirement is computed under the provisions of IAS 19 Employee benefits (hereafter – IAS 19). Under the provisions of IAS 19, the severance pay plan of the Company is considered a "defined benefit plan" as detailed in IAS 19. Hence, the liability for employee rights upon retirement that arise from the plan is measured on an actuarial basis and takes into account, among other things, future salary raises and turnover.

In addition, the amount funded is measured at its fair value. The said amounts funded comprise "plan assets" as defined in IAS 19, and hence, were set off from the liability for employee rights upon retirement for the purpose of statement of financial position presentation.

As a result, the liability for employee rights upon retirement, before deduction of the fair value of plan assets, decreased as of January 1, 2008 and December 31, 2008 by NIS 13 million and NIS 12 million respectively, while the deferred tax balance decreased by approximately NIS 3 million at January 1, 2008 and December 31, 2008.

As a result, funds in respect of employee rights upon retirement in the amount of NIS 89 million and NIS 82 million were setoff against the liability for employee's rights upon retirement as of January 1, 2008 and December 31, 2008 respectively.

The Company elected as its accounting policy to recognize actuarial gains (losses) arising from the valuation of the plan, according to IAS 19, on a current basis to other comprehensive income.

Actuarial losses in the amounts of NIS 13 million, net of tax, for the year ended December 31, 2008 were charged to other comprehensive income.

Finance income in the amounts of NIS 11 million for the year ended December 31, 2008 were charged to statements of income. Cost of revenues decreased for the year ended December 31, 2008 by NIS 4 million. The income tax expense for the year ended December 31, 2008 increased by NIS 4 million.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

D. Dismantling and restoring sites obligation

The Company recognizes a liability in respect of dismantling and restoring sites obligation ("ARO") associated with the retirement of a tangible long-lived asset in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO, is depreciated such that the cost of the ARO is recognized over the useful life of the asset. Under US GAAP, the interest rate used for measuring changes in the liability would be the credit-adjusted, risk-free rate that existed when the liability, or portion thereof, was initially measured. Under IFRS, the Company uses a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability in accordance with IAS 37. The application of the exemption of deemed-cost for property and equipment described in note A above resulted that property and equipment were revalued to their fair values at the January 1, 2008 transition date.

As a result, the provision for ARO increased by NIS 8 million and NIS 10 million as of January 1, 2008 and December 31, 2008 respectively, while the deferred tax balance increased by NIS 2 million as of January 1, 2008 and December 31, 2008.

Under US GAAP, the provisions were presented as part of other liabilities. Under IFRS, the provisions are presented separately on the statement of financial position. As a result, amounts in respect of ARO of NIS 19 million and NIS 23 million as of January 1, 2008 and December 31, 2008 respectively, were presented separately.

PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

## E. Derivative financial instruments

US GAAP does not require bifurcation of a foreign currency embedded derivative if payment is denominated in the functional currency of a substantial party to the contract. Under IFRS, bifurcation is not required also if payments are denominated in any currency that is commonly used to purchase or sell such items in the economic environment in which the transaction takes place. Until December 31 2006, Israel was considered an economy in which the US dollar is "commonly used". Accordingly there are some transactions in which foreign currency embedded derivative was bifurcated under US GAAP but not under IFRS.

The effect of applying IFRS as of January 1, 2008 and December 31, 2008, includes a decrease in current derivative financial assets in the amount of NIS 1 million with corresponding amount (net of tax) to accumulated deficit. As a result, the finance expenses for the year ended December 31, 2008 increased by NIS 1 million.

Under US GAAP, derivative financial instruments were presented in the statement of financial position within other receivables and other liabilities. Under IFRS, the derivatives are financial instruments that are measured at fair value through profit or loss and therefore are presented separately on the statement of financial position. As a result, derivative financial assets in the amount of NIS 27 million as at January 1, 2008 and December 31, 2008, were presented separately; and derivative financial liabilities in the amount of NIS 19 million and NIS 7 million as at January 1, 2008 and December 31, 2008, respectively were presented separately.

## F. Deferred Taxes

In accordance with US GAAP, deferred taxes were classified as current assets or current liabilities and non-current assets or non-current liabilities according to the classification of the assets or liabilities for which they were related. In accordance with IFRS, deferred tax assets are classified as non-current assets or non-current liabilities even if it is anticipated that they will be realized in the short-term. As a result, short-term deferred tax assets as at January 1, 2008 and December 31, 2008 in the amount of NIS 46 million and NIS 70 million, respectively, were reclassified from current assets to non-current assets.

The deferred tax asset as presented hereunder has changed based on the aforementioned changes. The changes in the deferred taxes were calculated on the basis of tax rates that are expected to be in effect when the temporary differences reverse:

|                                     |      | New Israeli shekels In millions |             |
|-------------------------------------|------|---------------------------------|-------------|
|                                     |      | January 1,                      | December    |
|                                     | Note | 2008                            | 31,<br>2008 |
| Deferred Taxes according to US GAAP |      | 140                             | 180         |
| Adjusted from transition to IFRS    |      |                                 |             |
| Property and equipment              | A    | (30 )                           | (76 )       |
| CPI adjustment – licenses           | B    | (14 )                           | (13 )       |
| Software adjustment                 | B    | (11 )                           | (10 )       |
| Liability for employee rights upon  | C    | (3 )                            | (3 )        |

retirement

|  |   |    |    |
|--|---|----|----|
| Dismantling and restoring sites obligation | D | 2  | 2  |
| Derivative financial instruments           | E | 1  | 1  |
| Deferred taxes according to IFRS           |   | 85 | 81 |

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

Hereafter are additional differences between US GAAP and IFRS which relate to presentation:

G. Current income tax liability

Under US GAAP, the income taxes payable has been presented under "other accounts payable". Pursuant to the provisions of IAS 1R - Presentation of Financial Statements, income taxes payable are presented separately on the statement of financial position. As a result, current income tax liability in the amount of NIS 48 million and NIS 42 million as at January 1, 2008 and December 31, 2008, respectively was presented separately.

H. Classification of Computer Software

Under US GAAP, computer software is classified within property and equipment. Under IFRS, computer software and capitalized software development costs which are not an integral part of the hardware attributed to them, are treated as intangible assets. As a result, the carrying balance at January 1, 2008 and December 31, 2008 of NIS 153 million and NIS 122 million, respectively, relating to computer software and to capitalized software development costs, were reclassified from the property and equipment item to the intangible assets item.

I. Classification of Issuance costs relating to Notes payable

Under US GAAP, Issuance costs relating to Notes payable were recognized as deferred charges. Under IFRS, notes payable are presented net of the issuance costs. The balance which was reclassified in the statement of financial position as of January 1, 2008 and December 31, 2008 is NIS 17 million and NIS 11 million, respectively.

J. Share based compensation expenses

Under US GAAP, share based compensation expenses were charged to profit or loss through corresponding increase to capital reserve. In accordance with IFRS, and on the basis of the accounting policy applied by the Company, the Company has reclassified this capital reserve to the accumulated deficit. As a result, the balance of the capital reserve decreased as of January 1, 2008 and December 31, 2008 in the amount of NIS 251 million and NIS 259 million, respectively, against accumulated deficit.

K. Classification of Finance income and expenses

Under US GAAP, financial income and expenses included interest and exchange differences, and fair value gains and losses on derivative financial instruments were also presented in finance income or loss, at their net value, below the "operating income" line item. Under IFRS, the Company presents interest income on non-current receivables as part of normal operations in its statement of income under "other income, net" as part of "operating income". Financial income and expenses are presented in two different line items – finance income and expenses, below the "operating income" line item.

As a result, finance income from sale of handsets in installments was reclassified from finance income to other income in the amount of NIS 64 million for the year ended December 31, 2008. Credit card commission expenses were reclassified from finance expenses to general and administrative expenses in the amount of NIS 29 million for the year

ended December 31, 2008.

According to US GAAP, financial income and expenses are presented net in the income statement. According to IFRS, financial income is disclosed separately from financial expenses in the income statement and accordingly, the Company separately presented financial expenses and income.

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PARTNER COMMUNICATIONS COMPANY LTD.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 –TRANSITION FROM US GAAP TO IFRS (continued):

L. Explanation of material adjustments to the statements of cash flow

1. Interest paid in the amount of NIS 92 million during the year 2008 that was included in operating cash flows under US GAAP, was classified as financing cash flows under IFRS.
2. Under US GAAP, deposits in funds in respect of employee rights upon retirement were recognized as investing cash flows. Under IFRS, these deposits are recognized as operating cash flows. As a result, an amount of NIS 9 million for the year 2008 was reclassified from investing activity to operating activity in the statements of cash flows.
3. Under US GAAP, funds paid or received from settlement of derivative financial instruments are classified as operating activity. Under IFRS, these amounts are classified under investing activities. As a result, amount of NIS 1 million, net, received from derivative financial instruments in the year 2008 were classified to investing activity.

M. Other comprehensive income

Under US GAAP, the Company had no comprehensive income components other than profit. Therefore, no reconciliation has been presented.

N. Reclassifications

Certain comparative figures have been reclassified to conform to the current period presentation. The change is immaterial.