

PARTNER COMMUNICATIONS CO LTD

Form 20-F/A

March 17, 2010

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As filed with the Securities and Exchange Commission on March 17, 2010

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

FORM 20-F/A

- 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
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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

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

EXPLANATORY NOTE

The registrant hereby amends its annual report on Form 20-F for the fiscal year ended December 31, 2009 (the “Form 20-F”), which was filed with the Securities and Exchange Commission on March 16, 2010, solely for the purpose of correcting some typographical and similar errors. Other than such corrections, this Amendment No. 1 does not amend, update or restate any information set forth in the Form 20-F.

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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 US\$ in millions (1)
	2008	2009	
New Israeli Shekels in millions (except per share data)			
<b>Consolidated Statement of 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 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 US\$ in millions (except share and per share data) (1)
	2008	2009	
	New Israeli Shekels in millions (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>				
Expenses	273	309	392	389
<b>General and administrative Expenses</b>				
Expenses	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



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 US \$ in millions (1)
	2008	2009	
	New Israeli Shekels in millions		
<b>Reconciliation Between Operating Cashflow and 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, 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, 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 2009	October 2009	November 2009	December 2009	January 2010	February 2010	March 2010 (through March 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 Advent 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:

- ISOI 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 Wataniya, 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:

- ▲ change has occurred in the suitability of Partner to implement the actions and services that are the subject of our license.
- ▲ change in our license is required in order to ensure effective and fair competition in the telecommunications sector.
- ▲ 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.
- ▲ 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.

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 Year ended December 31, 2009 In millions			
	Cellular segment	Fixed line segment	Reconciliation for 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 segment	Fixed line segment	Reconciliation for 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

### 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

(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\$ 8.81million). 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 Advent’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 Advent, a wholly-owned subsidiary of Hutchison Telecom, Advent granted a one-time cash payment to selected employees of Partner, shortly following Advent’s sale of its controlling interest, in recognition of the contribution made by such employees to the value of the Company. According to Advent, 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 Advent 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 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